


Backing our Customers

Annual Financial Report

for the financial year ended 31 December 2018

AIB Group plc

AIB is a financial services group operating predominantly in the Republic of Ireland. We provide a comprehensive range of services to retail, business and corporate customers, and hold market-leading positions in key segments in the Republic of Ireland using the AIB, EBS and Haven brands.

AIB also operates in Great Britain, as Allied Irish Bank (GB), and in Northern Ireland, under the trading name of First Trust Bank.

Our purpose, as a financial institution, is to back our customers to achieve their dreams and ambitions.

For more detailed information on our structure and business units, see pages 2 and 3.

Contents

This Annual Financial Report contains forward looking statements with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. See page 372.

A strong financial performance in 2018

Net interest margin

2.47%

2018 2.47%
2017 2.50%[1]

Net interest margin (NIM) broadly stable with lower cost of funds partly offset by impact of excess liquidity.

Cost income ratio[2]

53%

2018 53%
2017 49%[1]

Stable costs year-on-year. Lower other income items driving higher cost income ratio (CIR). Continued focus on cost management.

Profit before tax

€1.25bn

2018 €1.25bn
2017 €1.31bn

Profit before tax is €1.25bn with steady momentum in underlying business performance.

New lending[3]

€12.1bn

2018 €12.1bn
2017 €10.5bn

New lending increased 15% to €12.1bn with growth across all segments. Mortgage lending up 16% in the year.

Net loans

€60.9bn

2018 €60.9bn
2017 €60.0bn

Growth in net loan book of €0.9bn as a result of strong new lending. Performing loans (gross) increased €3.7bn.

Non-performing exposures[4]

€6.1bn

2018 €6.1bn
2017 €10.2bn

Significant progress in reducing non-performing exposures (NPEs) with a 41% reduction from €10.2bn to €6.1bn. On track to achieve c. 5% by end of 2019.

CET1 fully loaded

17.5%

2018 17.5%
2017 17.5%

Robust capital position with CET1 of 17.5% after proposed ordinary dividend of €461m (17c per share). Continued strong capital generation with profits contributing 210bps.

1. The 2017 reported NIM 2.58% is re-presented as 2.50%. The 2017 reported CIR 48% is re-presented as 49%. As per Accounting policies note 1 (f), when a financial asset has been cured without financial loss, the Group presents previously unrecognised interest income, €44m in 2018, in 'Net credit impairment writeback'. To aid comparability, the Group has re-presented the 2017 comparative taking account of the new classification of this income (2017: €61m). For further details see 'Basis of presentation' 'Re-presented 2017' on page 40.
2. Before bank levies, regulatory fees and exceptional items. CIR including these items was 63% in 2018 (2017: 61%). For exceptional items see pages 46 and 55.
3. New lending includes new term lending of €10.7bn in 2018 (2017: €9.4bn) and new transaction lending of €1.4bn in 2018 (2017: €1.1bn).
4. Non-performing exposures (NPEs) refers to non-performing loans (NPLs) and excludes €183m of off-balance sheet commitments. For further information see pages 95 and 121.

AIB in 2018

A diversified and customer-focused business with leading market positions

Retail & Commercial Banking (RCB)

65% of net loans

RCB's key business lines include: mortgages, consumer lending, SME lending, asset-backed lending, wealth management, daily banking and general insurance.

2.4m customers – Leading retail banking franchise in Ireland with over 2.4m personal and SME customers

295 locations – Largest physical distribution network in Ireland with 295 locations and a further c. 1,000 locations through An Post network

1.38m digital customers – Leading digital bank in Ireland with over 1.38m active digital customers and over 940k active mobile customers; c. 70% of personal loans applied for online

€5.1bn	€39.7bn	€1,003m
New lending	Net loans	Operating contribution[1]

Market offering

Leading mortgage provider
Number one mortgage provider in a growing market enabled via AIB's multi-brand strategy, including EBS and Haven.

SME business
Sector-led strategy and local expertise delivering the leading market share across key SME products, including current accounts, deposits and loans.

Consumer business
Leading provider of financial services to personal customers in the market, via digital innovation and relationship management expertise. Full suite of services, including daily banking, consumer credit, wealth management, savings and investments.

Wholesale, Institutional & Corporate Banking (WIB)

21% of net loans

With market-leading positions in core domestic markets in Ireland, and participation in US and European syndicated lending markets, WIB delivers customer-focused solutions and specialised product requirements in private and public markets to the bank's larger customers.

relationship-driven model – Well-established and diversified business with market-leading position in key sectors

sector specialist teams – Primary focus on senior debt origination through Corporate Banking, Real Estate Finance, Energy, Climate Action & Infrastructure

product specialist teams – Complementing traditional debt offering through Specialised Finance, Syndicated & International Finance and advisory services in Corporate Finance

€4.8bn	€12.7bn	€286m
New lending	Net loans	Operating contribution[1]

Market offering

Corporate Banking
Leading domestic franchise and number one bank for foreign direct investment (FDI).

Real Estate Finance
Multi-disciplinary team with established market position.

Energy, Climate Action & Infrastructure
A centre of excellence with particular focus on supporting Ireland's decarbonisation.

Specialised Finance
Services such as mezzanine, equity and structured finance.

Syndicated & International Finance
Proven ability with strong track record and reputation.

Corporate Finance
Providing advisory services and solutions.

AIB UK

14%
of net loans

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

306k
customers

Just under 306,000 retail, corporate and business customers across Great Britain and Northern Ireland

29
locations

A distribution network throughout the United Kingdom: Great Britain (14 business centres) and Northern Ireland (15 branches, including six business centres and a centre for small and micro businesses)

123k
digital customers

Over 123,000 active digital customers

£2.0bn
New lending

£7.4bn
Net loans

£161m
Operating contribution[1]

Market offering

Allied Irish Bank (GB)
Sector-led commercial and corporate bank with locations in key cities across Great Britain. Banking services include: lending, treasury, trade facilities, asset finance, invoice discounting and day-to-day transactional banking.

First Trust Bank (FTB)
A long-established bank in Northern Ireland providing a full banking service, including mobile, online, post office and traditional banking to business and personal customers.

Group

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

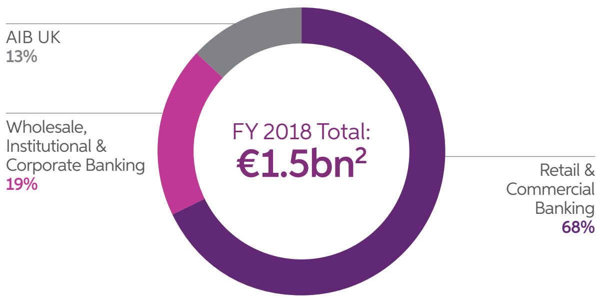
Treasury

Treasury manages the Group's liquidity and funding position and provides customer treasury services and economic research

control and support

The Group control and support functions include business and customer services, marketing, risk, compliance, audit, finance, legal, human resources and corporate affairs

Operating contribution[1] by segment



In January 2019, we introduced a new operating model for AIB, incorporating three core segments: Homes, Consumer and Business.

For a detailed report on our performance please read the 'Operating and financial review' on pages 40 to 56.

1. Pre-provision operating contribution.
2. Excludes the Group segment.

Building on positive momentum

Operationally 2018 was another successful year for AIB, and a new management team is ready to take over.

"Strong financial and operational progress in 2018 generated a satisfactory return on capital during the year"

2018 has been another successful year for AIB in terms of business performance and AIB's staff have worked hard to maintain and build on the positive momentum since our return to profit in 2014.

However, viewed through the lens of shareholder value it has been a challenging year. At the start of the year our share price was €5.50 and by the end of the year it had fallen to €3.68, which is a decline of 33%. For all our shareholders, including our largest, the Irish State with its 71% shareholding, this means the market value of their collective investment in AIB dropped by €4.9bn.

As a Board, since 2010, the issue of maximising the opportunity for the State to recover its full investment has been a core objective. We have gone about that by focusing on our customers and operating as simply and efficiently as we can. Unfortunately, despite the fact that operationally the Group has had a good year, we finished the year with a lower valuation. So, the legitimate question is why?

To explain this further we need to look at three separate elements. Firstly, there is the operational performance of the Group. At the time of the IPO in 2017 we set out five medium-term targets for the Group and we are performing well against them. Thus, the issue is not around our core financial performance.

Secondly, global equity markets have had a bad year, and a very poor second half. Across Europe markets fell, with banks generally performing worse than the average as general investor appetite for this risk asset class reduced. This is a wider market and sector issue that has affected all European banks in a significant way, including AIB.

Thirdly, we have been experiencing some idiosyncratic issues which relate to Ireland in particular which continue to dampen investor appetite for Irish listed banks and are the final reason for the decline in AIB's valuation. Specifically, the ongoing challenge around the exercising of security over residential and other property assets has left investors and regulators with uncertainty over the actual loss that needs to be booked on these assets when in default. This uncertainty affects the current and future appetite for exposure to banking assets in Ireland and also the amount of capital that banks must hold. In addition, the impact of continuing restrictions on remuneration on both talent retention and recruitment across the main domestically owned banks is a real concern. Investors have raised this concern with me on many occasions.

These issues are, I know, politically and socially difficult to resolve but, as they stand currently, they have a real cost and materially impact both the value of the State's holding in the banks and the economic efficiency of the lending markets that the banks operate in.

A direct impact of the remuneration challenge was evident at our 2018 AGM where the State voted against our share-based remuneration proposals. The proposals received the overwhelming backing of AIB's other independent

For more information on board activities during the year see our 'Governance in action' section on page 30.

shareholders, with 99.77% voting in support of the remuneration proposals.

The remuneration review that the Minister for Finance announced around the time of our 2018 AGM, to properly and fully examine the issue, has yet to conclude. Absent its findings and a position from the Minister, we have decided it is best not to propose new resolutions on remuneration to the next AGM. Even after the report and any conclusions emerge, we will need to consider it fully, consult with shareholders and, as appropriate, determine whether to make proposals to an Extraordinary General Meeting or wait until the next AGM in 2020.

It is worth reminding all stakeholders that EBA rules on remuneration have been comprehensively overhauled and are much stricter than what was operated in the past and provide much better protection and alignment of interests. They are set in such a way that if they had been in operation in 2008 executives at that time would likely have been writing cheques to the firm refunding their pay. We partially operate within these strict rules now and we would like to be allowed to operate fully within all aspects of them for fixed and variable remuneration in the future.

During the latter part of 2018 both our Executive Directors announced that they were leaving the Group. Mark Bourke, our CFO, tendered his resignation in September and Bernard Byrne, our CEO, in October. It is unusual to lose two such senior executives in such close proximity but this was not helped by the restrictions and decisions referred to above. Bernard and Mark have been a fantastic team and the very successful IPO that they led in 2017 has enabled the Irish State to recover a cumulative €10.8bn of its investment up to the end of 2018 including the dividend for the year. In fact, during 2018 there were a number of periods in which the value of the State's remaining shareholding added to all cash received to date exceeded the original €20.8bn invested in AIB. That is a real tribute to them both and they leave with huge appreciation from the Board for their contribution. I would also comment personally on the positive nature of the partnership I experienced working with Bernard and Mark. We have operated with total transparency, candour and trust and I thank them for the comradeship shared over the last five years. The challenging level of staff turnover at the senior executive level is not sustainable. Thus, we really do need to see the normalisation of the environment within which AIB operates, including more competitive remuneration policies. There is a real concern that we currently do not have parity with competitors. It just cannot make sense for foreign banks, and others who target the same talent, to be able to pay incentives and AIB not, it just turns us into a training ground for our competitors.

We now have a new management team ready to take over who come from within our own ranks. In December 2018, I had the pleasure of announcing Colin Hunt as our proposed new CEO, subject to the required regulatory fitness and probity assessment process. The regulatory assessment processes relating to the proposed appointments of Colin as CEO and a successor to the CFO role are progressing well and are expected to finalise shortly. Colin will bring a wealth of experience to the role and I am confident that he will lead the Group well in the years ahead. Following the departure of Mark Bourke with effect from 1 March 2019, and pending conclusion of the aforementioned assessment process, the Deputy CFO and Group Treasurer Donal Galvin leads the finance function.

We look forward to notifying the market of the outcome of those processes at the earliest opportunity. We are fortunate to have a very high-calibre internal team and I look forward to working with them all.

The strong financial and operational progress in 2018 generated a satisfactory return on capital during the year and enables us to propose an increase in the dividend of 42% to 17 cent per ordinary share. We wish to start paying interim dividends at some stage to finally get the business back on a normal dividend footing. Such a decision will be made in light of the Group's performance, will take account of the impact of any external economic factors and will be subject to regulatory approval.

I started my statement with a shareholder value perspective and have reviewed some of the main issues the Board have been dealing with and which have dominated our year, which is a very partial view of AIB. Day-in, day-out AIB staff are serving the population of Ireland with their daily banking needs with great success, developing new products, new customer functionality and building an AIB which is better and stronger at the end of the year than it was at the beginning. Our intention is to put customers at the front and centre of everything that we do and, to do so, we have aligned our staff behind a core strategic pillar: Customer First. Our Net Promoter Scores tell us that we are making good progress in this regard, with the willingness of customers to recommend our products or services to others generally improving.

AIB has a solid franchise in a strong economy and it isn't trying to do anything it isn't competent of doing. Banks like that are very investable, and I am confident in the long-term future of AIB because I am confident in the AIB team. It is important to remember that banks will never be 'low risk' and it takes vigilance and discipline to keep everything safe and proper. I would like to thank AIB staff for their efforts during 2018 and 2019 to date. This is complicated and onerous work which they do really well, and on most days they even manage to do it with a big smile!

I would like to thank all the Directors for their service and continued commitment during the year and, in particular, for the support they have provided to myself and the executive team in challenging circumstances. It is with regret that Simon Ball, a long-serving Independent Non-Executive Director, who would have reached his nine-year term on the Board during 2020, has recently noted his intention not to stand for re-election at this year's AGM. Simon has played a crucial role on the AIB Board for nearly eight years and, on behalf of the Board, I would like to thank him sincerely for the significant contribution he has made to the Group during his tenure. We have also been planning for three other Non-Executive Directors to leave in the course of 2019 and you will hear more from us when the requisite regulatory assessment processes have concluded for their replacements.

2019 is an important year for AIB and I know that our new management team is determined to further build on the success of their most recent predecessors. We all know that when AIB is doing well, Ireland benefits – and that is what we are about.

Richard Pym
Chairman
28 February 2019

Customer First strategy delivering sustainable performance

Across all the key metrics, AIB performed well during 2018 and can face into 2019 with a positive perspective.

In this, my last report on the performance of AIB, I am fortunate to be able to highlight another year of strong operational and financial performance. Across all the key metrics by which we judge ourselves, the business has performed well during the year. The quality of the balance sheet continues to improve as we work through our legacy non-performing exposures (NPEs). Our 2018 net interest margin (NIM), net interest income (NII) and costs are on track with our medium-term targets and our underlying capital generation has helped us in reaching our objective of normalising our proposed level of annual dividend payment.

Overall the strong Irish economy and our Customer First strategy supported the bank's 2018 performance. The balance sheet grew during the year with net loans up to €60.9bn, an increase of €0.9bn. The inflection point has now been well passed with net loan growth exceeding the reduction in non-performing exposures consistently. Our profit before tax of €1.25bn is still benefitting from net credits arising from resolving of non-performing exposures but this impact will reduce. The overall positive performance has been reflected in our credit ratings as AIB Group plc achieved Investment Grade from all three rating agencies. Fitch assigned AIB Group plc a rating of BBB- in March; Moodys upgraded 2 notches to Baa3 in July and S&P upgraded to BBB- in December. This milestone was also a reflection of our MREL execution ability in the market. AIB completed three successful issuances in 2018 (€1.65bn) of c. €4bn MREL requirement.

We have continued to invest both in terms of capital and operating capability to get the bank to the position whereby it can achieve its end 2019 targets. The platform that we have built over the last number of years, both in respect of the infrastructure we use to run the bank and the operating model we deploy to enable our colleagues to serve our customers, has been materially enhanced in 2018. This resulted in significant changes to our physical property estate and also to the operating model we use to deploy our collective resources. The work to position both of these was significantly completed in 2018 and the benefits will start to flow in 2019 and should have full year effects from 2020 onwards.

As we have made progress addressing the issues of the past we have developed a clear view that the number of stakeholders with a legitimate interest in the future performance of the bank is now very broad. Our long-term sustainability depends on anticipating and working with these stakeholder groups to ensure a balanced set of expectations are developed and delivered against. To achieve this we must proactively align our strategic capability and the necessary resources to consider and address stakeholders' needs.

This means the Group must adapt itself to this reality. This has also been reflected in the new operating model. We have set out a more detailed assessment of these stakeholders in the Sustainable Banking section of the report.

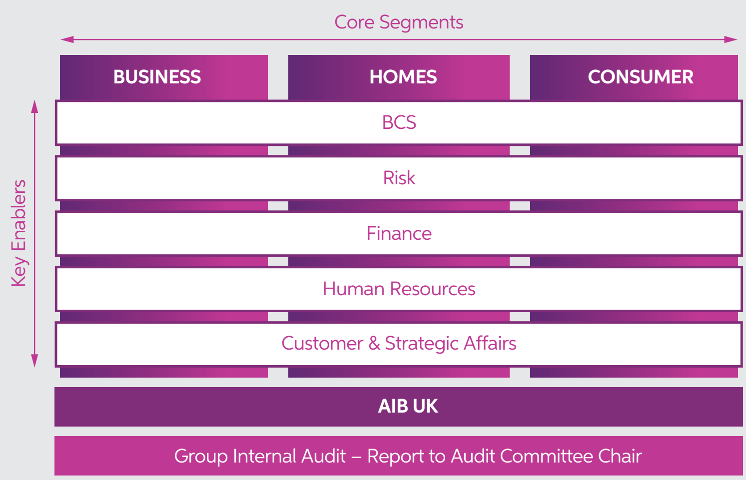
"Living and fulfilling our Purpose, to back our customers to achieve their dreams and ambitions, gives us the opportunity to create something special in banking"

Separately we wanted to move to the next phase of delivery against our four strategic pillars. We are committed to clearly (i) putting the **Customer First**, (ii) operating the bank as **Simply** and **Efficiently** as possible, (iii) intelligently taking and managing **Risk** to generate sustainable **Capital**, by (iv) having great **Talent** working in a supportive **Culture**. To do this better we have evolved the operating model. All key strategic decisions should start with the core customer segments. The new model is built around this idea. The other functions of the bank support their delivery to customers while also challenging them as appropriate. To do this we needed to move from a profit and loss based business unit structure to a more functional matrix structure with clearer accountabilities which fully embed the three lines of defence required. We invested time making sure we thought this through properly. Getting to the position where it became effective from 1 January 2019 was one of the biggest achievements of the year.

The changes to the operating model have resulted in us creating three new separate 'vertical' business units that are responsible for the development of end-to-end customer strategy and propositions for our Homes, Business and Consumer customers. The UK continues to operate, at a customer level, on a stand-alone basis. To support the delivery to our customers we have amalgamated all our distribution activity with our operational and technology functions into an enlarged horizontal service delivery unit, called Business & Customer Services (BCS), that serves all our customer and operational needs. Other key horizontal functions such as Finance, Risk and HR support the business verticals. Finally, and in order to ensure that we maintain the correct focus on each of our key stakeholders, we have created an enhanced Customer & Strategic Affairs function that spans the bank and supports the CEO in delivery of the pan-bank agenda. The heads of these verticals and horizontal functions are the core of the new Executive Committee (ExCo). An Operating Committee (OpCo) with a broader representation of senior leaders has also been established and its members will be responsible for delivering on the agreed strategy and ensuring our key priorities are progressed in a collaborative manner.

Our property strategy has been driven by the need to support this operational work. We have commenced the move from one prime location, Bankcentre, where almost 50% of staff work, to a distributed model spread across a number of smaller, more flexible locations. We have invested heavily in new technology to support far more agile ways of working as requested by our employees. We will exit Bankcentre entirely by the end of 2020 and Facebook will take over the campus upon our departure. Vacating the Bankcentre campus is a significant development and creates a great opportunity for AIB to continue its evolution. We are building Centres of Excellence in our various locations across Dublin: Molesworth St, Central Park, Burlington Road and Heuston South Quarter. These developments will enable AIB to employ new ways of working incorporating agility, flexibility and technology and support teams to collaborate more effectively. We have also implemented a new career model that has streamlined the levels within the organisation from 13 to seven. We are aiming for less hierarchy and more empowerment.

We created three new vertical business units



Many of the significant changes I have referred to above are reflected in both the operational and exceptional costs in 2018. During the year we have also addressed a major IFRS 9 implementation and the significant internal and external costs of achieving our NPE reductions.

Our total capital investment during the period of €225m also allowed us to complete several other key programmes. We focused on ongoing system resilience improvements, achieving regulatory compliance, and enhanced data and analytical capability to improve the customer experience. Our investment in technology saw the continued roll-out of our new payments engine, with 60% of payments migrated by the end of the year, along with a new Digital Business Banking Platform. Additionally our Regulatory Programmes saw us achieve GDPR readiness, and CCR (Central Credit Register) compliance with new 2018 requirements. We are also investing in tools and services to counteract the increasing threat of cyber-crime. We actively manage and continuously test cyber threats to prevent unauthorised parties from accessing, manipulating or acquiring private information but cyber risks remain a credible threat.

2018 also delivered significant customer enhancements. Our dedicated 'My Mortgage' app has made the mortgage process easier for our customers to navigate; they can now upload documentation remotely and have full visibility of where their application is in the process. In addition we launched Online Account Opening via the mobile app, allowing an identification specialist verify a customer's passport through a video call and, after answering some questions, the new account is set up for the customer. We further developed our

AI capability. This automation has enabled efficiencies in areas that had been traditionally resource-heavy allowing our employees to focus on exception-based activity that adds further value to our customer propositions.

Living and fulfilling our Purpose, to back our customers to achieve their dreams and ambitions, gives us the opportunity to create something special in banking. In 2018 we brought our Purpose to life throughout the organisation by holding over 200 workshops across the bank. These workshops gave our people the opportunity to really connect with our Purpose. They shared their stories on how they are bringing our Purpose to life in their daily roles. 2019 will see further embedding of our Purpose throughout the organisation, which will ultimately benefit our customers in the long-term as we continue to back them.

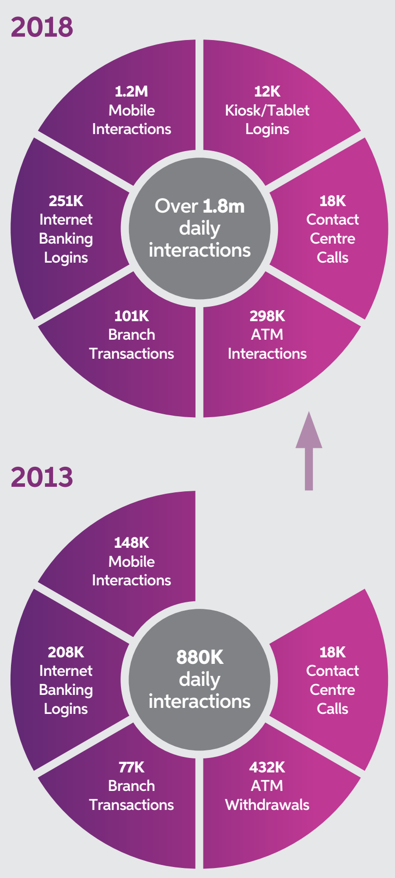
The needs of our customers are at the heart of what we do. Positively we saw increases across our Net Promoter Scores (NPS) in 2018. Our personal relationship NPS increased by 14 points from Q4 2017 to +35 in Q4 2018. In 2018 we started to measure Homes NPS and saw an increase from +42 in Q1 2018 to +50 in Q4 2018. Our SME Micro Score increased by seven points to +57 in Q4 2018, which is the highest level since measurement of SME journeys began. These NPS increases highlight the improvements we have made in delivering a better banking experience for our customers.

The momentum in our employee engagement journey continued into 2018 and I was pleased to see our employee engagement score, through our iConnect survey, continue on a positive trajectory this year. 89% of employees completed the survey, a 1% increase on last year and the results saw an increase in scores across all of the questions, confirming continued positive momentum. We are now in the 72nd percentile of Gallup’s worldwide database which is a fantastic achievement. When we started our engagement journey in 2013 we had three actively disengaged employees for every one that was engaged. We now have 17 engaged employees for every one that is actively disengaged which demonstrates the significant progress made over the last five years.

Our diversity and inclusion journey has broadened significantly over the last 18 months. We continue to build awareness and momentum across our resource groups for Pride, Abilities, Women, Men, Families and Roots. We now have an outcome-focused strategy that is clear on what we are aiming to achieve with clear accountabilities and timelines. We can see that we are continuing to create better outcomes for our people, our customers and our stakeholders through improved decision-making, greater innovation and a stronger culture. Women currently account for 38.7% of our overall management population and we are striving to improve on this, to achieve a target of 40% by the end of 2019.

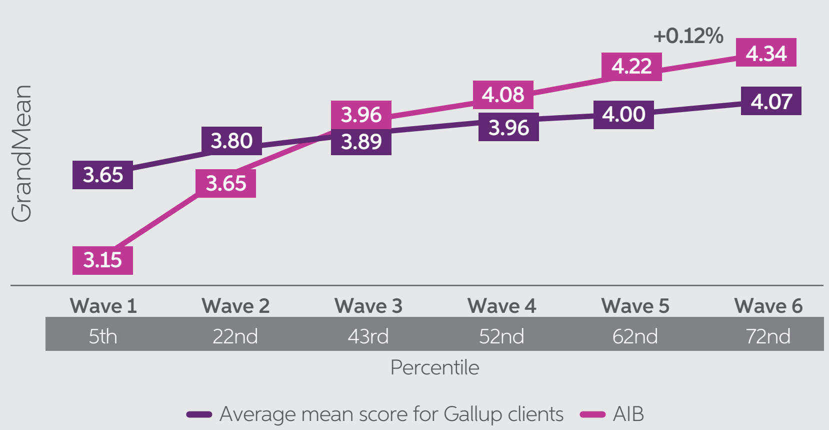
The key elements of the strong Irish economy supported our performance in 2018. Brexit related issues, however, presented challenges. From a balance sheet perspective we saw growth in our net loan book of €0.9bn as a result of strong new lending. In 2018 gross performing loans increased by €3.7bn and c. 98% of our new lending was of strong or satisfactory credit quality. This has contributed to 83% of AIB’s loan book being of strong or satisfactory quality by the end of 2018 (up from 77% in 2017). We saw growth in new lending in our corporate, mortgage and personal market. New lending of €12.1bn in 2018 was up from €10.5bn in 2017. This includes new term lending of €10.7bn and new transactional lending, such as revolving credit facilities (RCFs), of €1.4bn. Corporate term lending was up 24% and transactional lending was up 26% from 2017 levels. Mortgage lending was up 16% and personal lending was up 5% despite the backdrop of an increasingly competitive market and a constrained supply of new housing. Brexit uncertainty contributed to a slower SME market with SME lending down 5% compared to the same

Daily user interactions

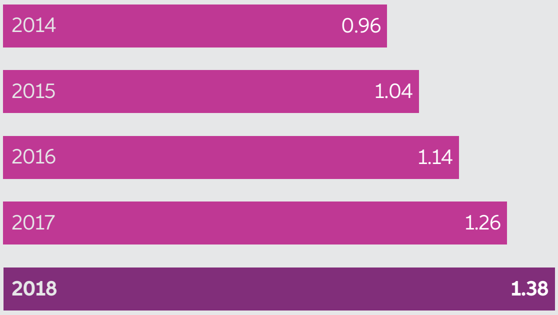


Source: Company information.

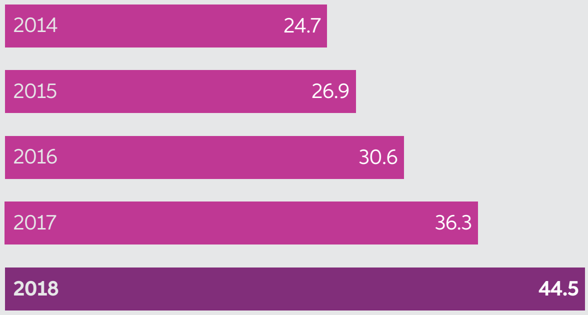
Employee engagement journey



Number of active online & mobile users – active at year-end (Millions)



Number of customer transactions completed via online & mobile channels (Millions)



period last year. In our UK business, while still impacted by Brexit concerns, we saw growth in new lending, up 9% from 2017 levels but our balance sheet remained static year-on-year.

To prepare for Brexit we continue to support our customers and we have a full suite of lending supports from working capital to long term funding and specialised lending supports. We developed Brexit Ready Check to help support SME customers in understanding their business exposure to Brexit. Our 26 Brexit Advisors understand the challenges and opportunities presented by Brexit, and they are focused on supporting customers to manage their business through Brexit.

We continue to pursue a strategy of working with our customers to achieve positive outcomes to their financial difficulties. Our non-performing exposures balance fell by €4.1bn (41%) since year-end December 2017 to €6.1bn. We are making steady progress and are on track to achieve NPE levels of c. 5% by the end of this year.

Total costs for the year, excluding exceptionals, at €1.4bn have increased by c. €20m on 2017. Our cost income ratio was 53%. Our medium-term target remains to get this below 50%.

Our strong financial performance demonstrates that our business continues to achieve robust underlying profitability, is well capitalised, has increased new lending and reduced non-performing loan balances, while at the same time, maintaining cost discipline and investing in its future. We will continue to face headwinds and challenges however the strong financial performance of the business equips us to deal with these, as and when they arise.

While we have made good progress in terms of legacy issues, plenty of challenges still exist, some new and some old. For example, the Tracker Mortgage Examination programme is materially complete with close out activities now underway during 2019 and we are working closely with the Central Bank of Ireland in terms of their enforcement process. We know that issues can and do continue to emerge from the past and when they do we are committed to dealing with them in a transparent and fair way for our customers.

Conclusion and outlook

Our sound capital base, comfortably above minimum regulatory requirements, gives us the ability to support our customers, to grow our business and to reward our shareholders. We have a stable funding model and an improving credit profile, which enabled us, in 2018, to deliver good financial returns leading to a growing capital return to our shareholders. I am pleased that the Board is, today, proposing a dividend payment for the full year 2018 of €461m. Including this dividend the State, our largest shareholder, will have received c. €10.8bn in capital, fees, dividends, coupons and levies to date.

Now that we are reaching a normalised dividend level with a significant increase to 17 cent per share the focus on returning surplus capital will move to the fore as the NPE element of our balance sheet continues to normalise over the next year.

The bank can face into 2019 with a positive perspective. The Irish economy remains strong and the key metrics around economic growth and employment currently remain supportive. Brexit clearly presents a risk for both our core Irish market and our UK position. However AIB has a great team working at all levels of the organisation. The business has invested well in its technology and customer initiatives and this is evident in our strong market shares across the key segments. Our new operating model should support these positions. There are other complexities and challenges including the necessary enhancements to meet continuously rising regulatory prudential and conduct agendas, as well as cyber risks. The return of inflation in our core market will also present challenges.

The regulatory assessment process relating to the proposed appointments of Colin Hunt as CEO and the selected successor to the CFO role are progressing and are expected to finalise shortly. As I step down, I want to thank all the employees at AIB; from my fellow Board members to the employees who serve our customers both directly and indirectly for their support to me over the last number of years. They have helped make AIB such a wonderful place to have the honour of being CEO. And finally I want to thank and acknowledge the great support of our Chairman Richard Pym and our departing colleague Mark Bourke. They were incredibly supportive yet forthright critics when I needed it most. Thank you all and I wish you every success in 2019.

Bernard Byrne
Chief Executive Officer
28 February 2019

The economy in the Republic of Ireland is well placed ahead of uncertain Brexit outcomes

Housing completions

+25%

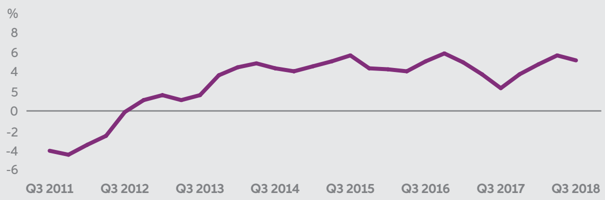
Employment

+3%

Core retail sales

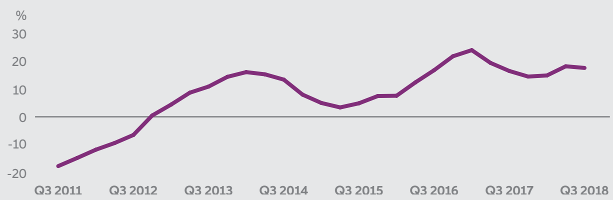
+4%

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



Source: CSO via Thomson Datastream.

Construction Investment*
(Volume, 3 Qrt Mov Avg, YoY % Change)



Source: CSO via Thomson Datastream.

* Charts refer to the Republic of Ireland economy only.

Economic overview

Recent years have seen stronger than expected growth by the Irish economy. This has been led by robust export growth, but there has also been a strong expansion in domestic demand, including business investment, construction and consumer spending.

The Irish economy performed better than expected again in 2018. Latest National Accounts data show that GDP grew by 7% in the first three quarters of the year. However, Irish GDP figures are distorted by large flows related to the activities of multinational companies. A better measure of underlying activity is 'modified final domestic demand', which excludes factors such as intellectual property rights and aircraft leasing. This grew by 5% in the first three quarters of 2018. Meanwhile, the ESRI has put the underlying growth rate of the economy at close to 5% in 2018.

Housing

Construction continued to rebound, with output up by 17% in the first three quarters of 2018. Housing output continued to rise steadily, albeit from low levels. Housing commencements rose by 28% to 22,500 in 2018.

Housing completions, as reported by the CSO, rose by 25% to over 18,000 units in 2018, up from 14,400 the previous year. There was a sharp increase in planning permissions in 2018, with the number up by almost 70% in Q3 from 2017 levels.

This level of building activity is still well below the projected 30,000-35,000 units that are required to meet annual demand. The mismatch between supply and demand continued to exert strong upward pressure on house prices and rents last year. House price inflation, though, moderated over the course of last year, easing to 6.5% year-on-year by December, with rents up by 6.4% in December also.

Exports and consumer spending

Exports maintained their strong uptrend in 2018, with total exports rising by over 9% in the first three quarters of the year, helped by a strong performance by the multi-national sector, most notably computer services and pharmaceuticals.

Consumer spending rose by over 3% in the first three quarters of the year. New car sales were depressed by second-hand imports from the UK. However, core retail sales (i.e. excluding the motor trade) maintained their robust growth rate, rising by close to 4% in 2018.

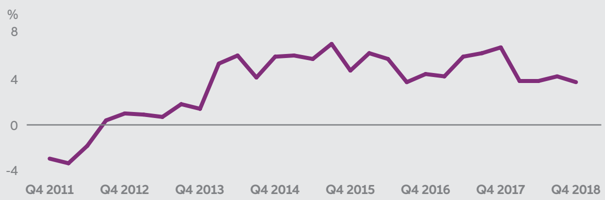
Consumer price inflation remained very subdued reflecting global trends, competitive pressures in the retail sector and the strength of the euro against sterling. The Harmonised Index of Consumer Prices (HICP) rose by 0.7% in 2018, well below inflation in the Eurozone, the UK and the US.

Employment

The Irish labour market remained strong last year, with employment expanding by almost 3%. Jobs growth was evident across most sectors of the economy, with particularly strong employment gains in construction and a range of service sectors. Meanwhile, the unemployment rate fell to 5.7% in the second half of 2018, down from 6.2% at end 2017.

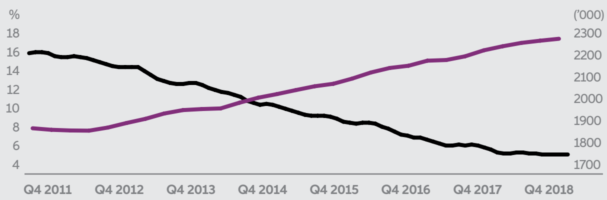
"Jobs growth was evident across most sectors of the economy, with particularly strong employment gains in construction and a range of service sectors"

Core Retail Sales*
(Volume, YoY % Change)



Source: CSO via Thomson Datastream.

Employment/Unemployment*
Unemployment rate: (%) LHS — Employment ('000): RHS



Source: CSO via Thomson Datastream.

Lending activity

The ongoing recovery in housing activity was reflected in good growth in mortgage lending. It recorded a strong 20% increase in 2018, totalling €8.7bn for the year, up from €7.3bn in 2017 and €5.7bn in 2016. However, this is still some way short of the level of lending that would be associated with a more normalised housing market.

There was little change in new lending to the SME sector in the first three quarters of 2018, which was held back by the uncertainty around Brexit. Central Bank data show new lending to the SME sector (excluding financial intermediation and property related services) amounted to almost €2.5bn to the end of September, up 0.5% on the corresponding period of 2017.

Brexit

To date, there has been limited impact on the Irish economy from Brexit, but it remains a major concern. The associated weakness of sterling has clearly impacted those trading with the UK, as well as the number of British tourists coming to Ireland. However, Irish companies have become used to dealing with a weak and volatile sterling during most of the past decade. SME lending, though, was held back by Brexit uncertainty in 2018.

At the time of writing, the UK Government is asking the EU to make some changes in relation to the Irish backstop in the Withdrawal Agreement, in order to help get the exit deal through the UK parliament. The Agreement allows for an orderly departure by the UK from the EU at the end of March 2019, as it includes a transition period that would keep the current trading agreements largely in place until at least the end of 2020. If needs be, the UK is likely to seek and be granted an extension to Article 50 by the EU to avoid a no-deal hard Brexit at the end of March. This would delay Brexit for a period of time.

UK economy overview and outlook

The UK economy has been impacted by Brexit. The pace of growth weakened in 2017 and slowed further in 2018 as high inflation and slower employment growth weighed on consumer spending, and the uncertainty around Brexit held back investment. GDP growth in 2018 is estimated at 1.4%, down from 1.7% in 2017, and well below the average rate of 2.3% in the period 2013-2016. GDP growth is forecast by the Bank of England at 1.2% for 2019, assuming that the UK has an orderly departure from the EU.

Outlook for the Irish economy

Most forecasters see economic growth in Ireland slowing to around 4.0%-4.5% in 2019, taking into account the UK's departure from the EU, a softening in global growth and a slower pace of job creation as the economy moves towards full employment. However, this would still be a very good growth performance by the Irish economy.

Leading indicators of activity have softened in recent months, but continue to point to good prospects for the economy. Growth should be underpinned by continuing low interest rates, rising employment and incomes, the ongoing rebound in construction activity as well as a more expansive stance to fiscal policy. This should result in a strong rise in new lending activity in 2019. However, this is all predicated on the assumption that a disorderly hard Brexit and a marked slowdown in the world economy are avoided in the coming year.

How we measure our progress

Our strategy comprises four pillars: Customer First, Simple & Efficient, Risk & Capital and Talent & Culture. Under each of these pillars we have set medium-term financial and non-financial targets. Each of these pillars and the targets within them, along with our progress towards those targets, is outlined below.

Customer First

We put our customers at the heart of our organisation, continually adapting our product and service offerings to meet their needs. We provide a digitally-enabled, omni-channel banking experience that allows customers to interact with the bank how and when they want.

Progress in 2018

- Sustained NPS improvement across Relationship (Personal, SME and Complaints) and Transaction – Homes (Mortgage Success, Declines and Drawdowns).
- Mortgage customer experience programme delivered the 'My Mortgage' web app and the 'Express' mortgage journey.
- Launched Fitbit Pay, the latest offering added to our Digital Wallet collection, in addition to Apple Pay and Google Pay.
- Launched new-to-bank account opening capability via smartphone; new customers can now open an AIB account in minutes.
- Launched the AIB Brexit Ready Check, which produces a tailored report of areas for customers to consider in preparing for Brexit.

Measure	Outcomes 2018	Financial and non-financial targets [1]
Relationship Net Promoter Score (NPS) A measure of our customers' overall AIB relationship experience	Personal 35 SME 24	50+
Transaction Net Promoter Score (NPS) Measured after customer transactions for key touch points	Home 50 SME 57	50+ 60+

Simple & Efficient

We are at the forefront of digitally-enabled banking, with ongoing investment in technology and innovation. Our products and services are simple and easily accessible, supported by a resilient and agile technology platform.

Progress in 2018

- Operationalised our property strategy, locating 1,800 employees in Central Park and confirming two further new locations in 10 Molesworth St and Heuston South Quarter.
- Delivered leading biometric capabilities in facial recognition on mobile, as well as voice recognition across telephony.
- Improved performance: roll-out of a new Digital Business Banking Platform, a new Treasury Platform and a new payments engine.
- AIB UK was the first bank in the world to certify conformance to the Open Banking Security Profile, a global standard for securing API communications for financial services.
- Delivered a 10% increase year-on-year in customers using our digital channels, with a 20% increase in mobile users specifically.

Measure	Outcomes 2018	Financial and non-financial targets [1]
Channel trends % number of our active customers transacting digitally	57%	62%+
Cost income ratio (CIR) [2] **Financial benchmark of efficiency**	53%	Robust and efficient operating model CIR < 50%

1. All targets are long-term, with the exception of medium-term financial targets communicated to the market on 9 March 2017.
2. Medium-term financial targets communicated to the market on 9 March 2017.
3. Includes proposed dividend for full-year 2018.

“In this, my last report on the performance of AIB, I am fortunate to be able to highlight another year of strong operational and financial performance. Across all the key metrics by which we judge ourselves, the business has performed well during the year.”

Bernard Byrne, CEO

Risk & Capital

We are increasing the value of the business while maintaining a strong risk management framework, improved asset quality and robust capital levels. We offer value to our customers while consistently delivering a strong financial performance that paves the way for future development and addresses legacy challenges.

Progress in 2018

- Strong capital generation with profits contributing 210bps.
- Investment Grade achieved for AIB Group plc.
- Three successful MREL issuances, including an inaugural dollar transaction of $750m which was oversubscribed with a diversified investor base.
- Continued strong momentum in the reduction of non-performing exposures, with a 41% reduction year-on-year, from €10.2bn to €6.1bn.
- RAROC calculator launched and training provided to ensure the best possible decision-making support.

Measure	Outcomes 2018	Financial and non-financial targets [1]
Cash paid to State Cash paid to the Irish State, including value received through the IPO	€10.8bn [3]	Repay State investment of €20.8bn in full
Return on tangible equity (ROTE) [2] **A measure of how well the bank deploys capital to generate earnings growth**	12.4%	Target returns of 10%+
CET1 ratio (fully loaded) [2] **A measure of our ability to withstand financial stress and remain solvent**	17.5%	Strong capital base with CET1 of 13%
Non-performing exposures (NPEs) Measures the credit quality of our loan stock	9.6% of gross loans	c. 5%
Net interest margin (NIM) [2] **A measure of the difference between the interest income generated and the amount of interest paid out relative to (interest-earning) assets**	2.47%	Strong and stable NIM 2.40%+

Talent & Culture

We ensure that we have the right talent, skills and capabilities within the organisation to support accountable, collaborative and trusted ways of working. We promote a culture of diversity and inclusion, where people can be at their best.

Progress in 2018

- Continued improvement in employee engagement scores, now in the 72nd percentile of Gallup's worldwide database with a grand mean of 4.34 out of 5.
- Successful cascade of summits and workshops aimed at embedding our Purpose, finishing the year with an inaugural ‘Purpose Day’.
- Launched our Leading with Purpose Programme (LPP) and Emerging Leaders Programme (ELP).
- Achieved a 86% participation rate in the first year of Appreciate, our peer-to-peer employee recognition programme.
- Achieved Distinction in Inclusion and Diversity at the HRD Awards, and named Employer of Choice at the Women in Finance Awards.

Measure	Outcomes 2018	Financial and non-financial targets [1]
Diversity Women as % of all management	38.7%	40%
Engagement Employee engagement relative to Gallup client population	72nd percentile	Top quartile

Customer First

Everyday banking

In 2018 we launched new-to-bank account opening capability via smartphone. This unique capability means that new customers can now open an AIB account in minutes using just their smartphone.

In 2018 we added AIB Fitbit Pay to our Digital Wallet collection, in addition to both Apple Pay and Google Pay options. Fitbit Pay uses existing contactless functionality to make payments with a Fitbit device – no wallet or smartphone necessary. AIB also became the first Irish bank to offer customers the ability to purchase travel insurance through the mobile banking application.

We continued to reward loyalty via the AIB Everyday Rewards programme, offering customers cash back on a range of different purchases with selected retail partners. A total of c. €1.5m was rewarded in cash back savings to customers during 2018.

Ger Leahy, Tillage farmer and AIB customer

Backing belief

AIB Group has a 32% share of the mortgage market in the Republic of Ireland, extending c. €2.8bn in new mortgage loans in 2018.

Our AIB brand offers the lowest Standard Variable Rates (SVR), passing on variable rate reductions to both new and existing SVR customers. In May, as part of our dual brand strategy, EBS announced significant reductions across all its fixed mortgage rates for new and existing Private Dwelling Home mortgage customers while continuing to provide a cashback offer. All fixed rates from 1 to 5 years were reduced to 3%.

During 2018 we focused on simplifying and streamlining our mortgage process under our Mortgage Customer Experience (MCX) programme. The vision of the MCX programme is to create a more convenient, faster and simpler mortgage process enabled by increased digital capability and an expert community of Homes Consultants. We created the Homes Centre of Excellence (HCoE), developed an 'Express' mortgage journey, which is currently being rolled out, and introduced the 'My Mortgage' web app, which enables customers to upload documents, download bank form templates, send to and receive messages from AIB, and view their mortgage application status.

In February, we launched a new €100m social housing development fund: dedicated funding for developers with housing projects sold to local authorities or large Approved Housing Bodies. Together with our support for affordable housing schemes this underscores our commitment to operate as a key stakeholder in all aspects of the residential sector.

Supporting business

SMEs in Ireland receive valuable insights via the AIB Outlook Report series. AIB Outlook Reports published in 2018 included the following: Licenced Premises (Pubs), Transport and Logistics, Nursing Homes, Retail Pharmacy and Energy Efficiency. In addition, we also published insight reports for the Agri market, including two editions of *Agri Matters* and *Young Farmer Bytes*. Throughout 2018, over 250 business owners completed the first AIB Women in Enterprise programme, assisting them in scaling and growing their businesses.

AIB Corporate Banking provides finance to larger corporates and other entities across the country. One example from 2018 was the Cork Container Terminal in Ringaskiddy, a key growth enabler for the entire Munster region. AIB joined with the European Investment Bank and the Ireland Strategic Investment Fund (ISIF) in creating an innovative and award-winning financing structure for the Port of Cork Company.

Getting Brexit-ready

We supported our customers in preparing for the potential impacts of Brexit, with 26 Brexit Advisors available countrywide, backed in turn by 500 business advisors. Initiatives in 2018 included: the provision of €122m from the €300m SBCI Brexit Loan fund; the quarterly Brexit Sentiment Index, tracking customer sentiment and concerns; and the AIB Brexit Ready Check, which produces a tailored report of areas for customers to consider in preparing for Brexit.

Central Park, AIB's new central office in Leopardstown, Co. Dublin

Strategy in action

Simple & Efficient

A streamlined property strategy

Our property strategy aims to provide a modern workplace that promotes collaboration and flexibility and ensures we have the right teams in the right places to deliver for our customers. In 2018, we announced our intention to exit Bankcentre, our headquarters since 1979. As such, we located 600 employees in 2 Burlington Rd and 1,800 employees in Central Park, our new premise in Leopardstown, Co. Dublin. We also announced two further locations: 10 Molesworth St and Heuston South Quarter (HSQ). From 2019, 10 Molesworth St will deliver an industry-leading corporate headquarters while HSQ will be home to support functions.

Digitally-enabled banking

AIB is the market leader in digitally-enabled banking in Ireland. At the end of 2018, we had 1.38m active digital customers, representing a 10% increase year-on-year. 940k of these are active mobile customers, representing significant year-on-year growth of 20%.

Investment in 2018 focused on ongoing system resilience, regulatory compliance, productivity improvements, and enhanced data and analytical capability to improve customer satisfaction. In 2018, we delivered leading biometric capabilities in facial recognition on the mobile channel, as well as voice recognition across telephony. We have also delivered significant efficiencies in the back office, enhancing service capability.

Resilient and agile

2018 was a big year for system and process updates across the banking industry. We continued the roll-out of our new payments engine, with 60% of payments migrated by the end of the year, along with a new Digital Business Banking Platform. We now have 80% of our Treasury business working off our new platform.

Protecting customers

As part of protecting our customers' data, we invest heavily in tools and services to counteract the increasing threat of cybercrime. We partner with other institutions across Europe to foster an open, knowledge-sharing and mutual protection culture. We actively manage and continuously test cyber threats to prevent unauthorised parties from accessing, manipulating or acquiring private information.

In order to achieve GDPR readiness we implemented changes to build on the data protection safeguards we already had in place, thus further enhancing transparency, security and accountability.

A new era in banking

The introduction of the Payment Services Directive II (PSD2) in Europe and Open Banking in the UK in early 2018 allows customers to grant third party companies access to their financial data. It also enables third parties to initiate payments from a customer's account. Subsequent regulation has followed, with banks increasing the capabilities that third parties can utilise for consenting customers. AIB met the January 2018 deadline to be compliant with these standards and our digital architecture has allowed us to securely open our platforms for customers to take full advantage of this new banking paradigm if they wish. AIB UK was the first bank in the world to certify conformance to the Open Banking Security Profile, a global standard for securing API communications for financial services.

Mullinalaghta St Columba's in action against Kilmacud Crokes during the AIB Leinster GAA Football Senior Club Championship Final 2018

Strategy in action

Risk & Capital

Strong performance

As a Group, we are generating and distributing capital while maintaining a strong capital base (fully loaded CET1 ratio of 17.5%).

Our funding model is both stable and low cost. The net stable funding ratio was 125%, with a liquidity coverage ratio of 128% at year-end. The loan to deposit ratio stands at 90%. Earning loans have increased due to growth in new lending.

Strengthened risk management

Risk-adjusted return on capital (RAROC) is the framework AIB uses to make consistent and informed decisions, adjusting the return from lending with all associated costs of that lending, and expressing that return in relation to capital required. In 2018, the bank implemented a new RAROC calculator to ensure we have the best possible decision-making support. While the new RAROC calculator only directly impacts a small cohort of colleagues, its principles sit behind all of our grid or branded pricing.

MREL issuances and rating upgrades

In 2018, AIB Group plc completed three successful MREL issuances and secured upgrades from the Rating Agencies. The three MREL trades totalled €1.65bn of our c. €4bn MREL issuance requirement. In October, AIB Group plc issued its inaugural dollar MREL transaction. This was a $750m, five-year transaction at a spread of 1.75% over US Treasury Government bond yields with a fixed coupon of 4.75%.

A key milestone this year was achieving Investment Grade credit rating for AIB Group plc from all three rating agencies. This was a reflection of the strong progress in reducing NPEs and also our MREL execution ability in the market. Fitch assigned AIB Group plc a rating of BBB- in March; Moodys upgraded 2 notches to Baa3 in July and S&P upgraded to BBB- in December.

Value creation

AIB has consistently delivered strong organic capital generation over the last three years. This has enabled substantial repayments to the State, including ordinary dividend payments in 2018. The State, the largest shareholder, will have received c. €10.8bn in capital, fees, dividends, coupons and levies to date.

As the Group reaches more normalised annual dividend levels, our focus moves to returning excess capital.

Talent & Culture

Cultural review
The Irish Banking Culture Board (IBCB) was established by CEOs and executives from the five retail banks in Ireland in 2018 following a Central Bank of Ireland (CBI) review of the sector. In AIB, we have been on a journey of cultural change for some time, focusing on becoming a truly customer-focused organisation. We look forward to having a key role in rebuilding trust and confidence in the Irish banking industry.

A Purpose-led organisation
Our Purpose is to back our customers to achieve their dreams and ambitions. It is not just our leaders who make this Purpose real, it's every one of us who make it real every day. For our Purpose to be effective as a way of successfully managing and steering our business, it must be integrated into everything we do.

As such, in 2018, AIB employees took part in a Purpose Workshop in order to understand why our Purpose matters, and to connect with it in a meaningful and practical way. The Executive Committee members got 'Out & About', visiting branches and locations in Ireland and the UK to understand how AIB employees are living our Purpose across the Group.

On 6 December, we held our first Purpose Day – a day of celebrating our customers. As part of Purpose Day, AIB hosted 10 Customer Christmas Markets in central offices and branches located in Dublin (Bankcentre, Central Park, Adelaide Rd and Blanchardstown branch), Waterford (Dungarvan and The Quay branches), Kilkenny (High Street branch), Cork (66 South Mall), Limerick (106/108 O'Connell St) and Belfast (First Trust Centre).

2018 was the first year of activity to really embed our Purpose, with more planned for 2019 and further years.

Employee engagement
The annual iConnect survey allows us to assess engagement levels of our people and to identify and address engagement issues, both at local team levels and across the organisation. Since 2013, when we first partnered with international engagement experts Gallup, our engagement levels have consistently increased. In 2018, we reached the 72nd percentile of the worldwide Gallup database – compared to the 5th percentile in 2013 – and achieved our highest participation rate of 89%. In addition, our ratio of engaged employees to actively disengaged employees is now 17:1, compared to 0.3:1 in 2013.

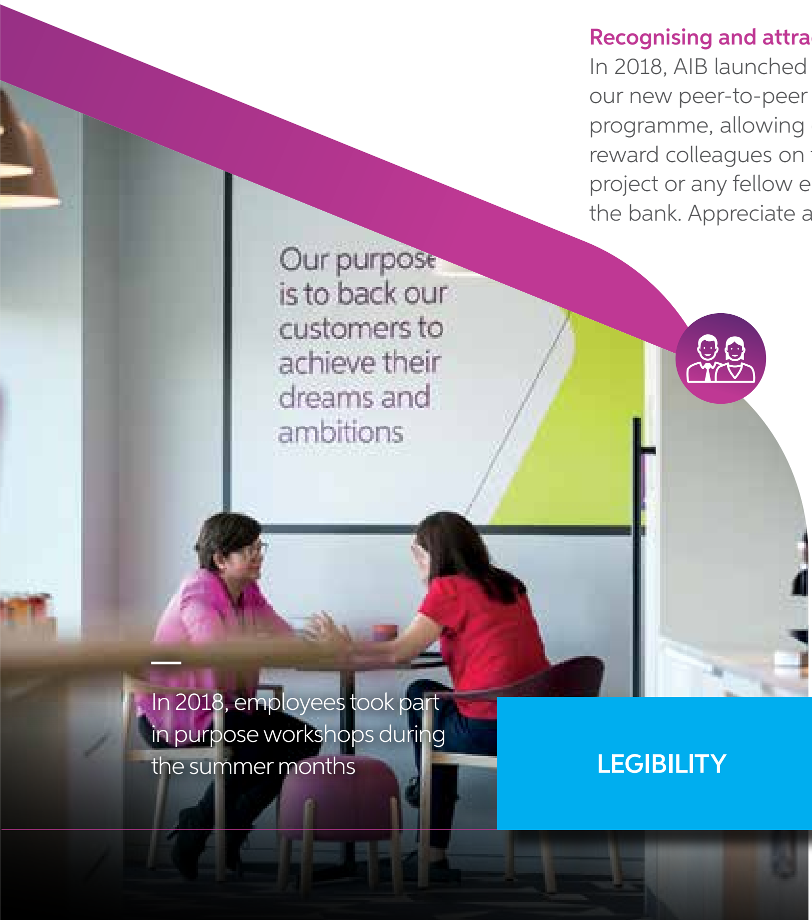
Recognising and attracting talent
In 2018, AIB launched Appreciate, our new peer-to-peer recognition programme, allowing our people to reward colleagues on their team, a project or any fellow employee across the bank. Appreciate allows us to recognise success and encourage behaviours that are really important to our business as all awards are linked to our brand values. Since its launch in April, over 20,000 Appreciate awards have been granted.

> "In 2018, we reached the 72nd percentile of the worldwide Gallup database and achieved our highest participation rate of 89%."

The graduate hiring programme saw another increase in 2018, with over 80 talented graduates joining AIB teams across the bank. As for our leaders, in 2018, two development initiatives were launched in order to retain and nurture talent: Emerging Leaders Programme and Leading with Purpose Programme.

Diversity & inclusion
In 2018, AIB was recognised with the Distinction in Inclusion and Diversity at the HRD Awards and as Employer of Choice in the 2018 Women in Finance Awards.

We held our second annual Diversity & Inclusion Week in March, during which all AIB employees were encouraged to Pledge for Inclusion. Our people walked in the Dublin, Belfast and New York Pride Marches. During Deaf Awareness Week, Internal Communications committed to including subtitles on all videos made internally. Our Mentor Her programme provided mentorship to 50 women in the Group. And AIB joined other employers in Ireland to launch the Open Doors initiative, aiming to increase access to the labour market for marginalised groups.



In 2018, employees took part in purpose workshops during the summer months

LEGIBILITY

Annual Review
Business Review
Risk Management
Governance and Oversight
Financial Statements
General Information

AIB's governance arrangements include structures and processes to identify, manage, mitigate, monitor and report the risks to which AIB is exposed, including a three lines of defence risk management model.

Managing risk

We apply an enterprise risk management approach to identify, assess and manage risks in AIB. Risk is defined as any event that could damage the core earnings capacity of AIB, increase cash flow volatility, reduce capital, threaten business reputation or viability and/or breach regulatory or legal obligations.

The first line of defence (Business Lines) owns the risks and is responsible for identifying, recording, reporting and managing them, and ensuring that the right controls and assessments are in place to mitigate them. The second line of defence (Risk & Compliance) sets the frameworks and policies for managing specific risk areas, approves all large credit exposures, provides advice and guidance in relation to the risk and also provides independent review, challenge and reporting on AIB's risk profile. The third line of defence is the Internal Audit function, which provides independent and objective assurance of the adequacy of the design and operational effectiveness of the risk and control environment.

Risk governance structure

The Board has ultimate responsibility for the governance of all risk-taking activity at AIB. The Board has delegated a number of risk governance responsibilities to various committees, principally:

- Board Risk Committee
- Board Audit Committee
- Group Risk Committee (Executive Risk Committee in 2018)
- Asset & Liability Committee
- Operational Risk Committee
- Group Credit Committee

Risk appetite

The Board approves AIB's Risk Appetite Statement (RAS), which is an articulation of the Group's tolerance and philosophy for risk-taking. The RAS is aligned to our strategy in protecting risk and capital, and is cascaded to the business segment level. This is a key part of embedding risk culture and fostering responsible risk-taking and risk-management behaviours throughout the organisation. AIB's compliance with the RAS limits is reported to the Board on a monthly basis.

AIB's RAS is built on the following overarching qualitative statements:

1. We have low appetite for income volatility and target steady, sustainable earnings to enable appropriate regular dividend payments.
2. We do not have an appetite for large market risk positions.
3. We accept the concentration risk arising from our focus on markets in Ireland and the UK. Within these markets we seek to avoid excessive concentrations to sectors or single-names, and test repayment capacity in stress conditions.
4. We seek to attract and retain skilled staff and reward behaviours consistent with our brand values and Code of Conduct.
5. We offer our customers transparent, consistent and fair products and services, and always seek to deliver fair customer outcomes.
6. We seek to maintain the highest level of availability of key services for our customers.
7. We seek to comply with all relevant laws and regulations; our business is underpinned by a strong control framework.
8. We hold capital in excess of the regulatory requirements while achieving returns on capital in line with stakeholder and market expectations.
9. We seek resilient, diversified funding, relying significantly on retail deposits.

Viability of the Group

In accordance with provision C.2.2 of the UK Corporate Governance Code published in April 2016, the Directors have assessed the viability of the Group taking into account its current position and principal risks facing the Group over the next three years to 31 December 2021.

The assessment considered the current financial performance, funding and liquidity management and capital management of the Group and the governance and organisation framework through which the Group manages and seeks where possible to mitigate risk. A robust assessment of the principal risks facing the Group including those that would threaten the business operations, governance and internal control systems was also undertaken and considered.

On the basis of the above, the Directors believe, taking into account the Group's current position, and subject to the identified principal risks, the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of assessment.

The full Viability Statement, including details of the key processes in place during the year which support the Director's assessment, is set out in the Governance and Oversight section of this report on pages 168 to 214.

For more information, see our 'Risk management' section on pages 61 to 166.

Risk management in practice

We perform a top-down Material Risk Assessment (MRA) process to ensure all material risks to which AIB is exposed are identified. The Risk Appetite Statement is developed based on the MRA and is cascaded down to licensed subsidiaries and significant business segments to enable responsible risk-taking and risk management behaviours throughout the Group.

AIB conducts comprehensive capital and liquidity adequacy assessments to ensure its capital and liquidity positions are in line with the regulatory requirements and AIB's internal strategic objectives. AIB also operates a wide-ranging stress testing programme to assess the strength and resilience of AIB and drive strategic decision-making.

Bottom-up risk and control assessments are also undertaken to ensure all risks are identified, evaluated and controlled in a consistent manner. AIB's risk management processes are supported by a comprehensive risk management framework and policy architecture.

The following table summarises the linkage between AIB's material risks and the principal risks and uncertainties (see pages 62 to 68 for more details).

	Strategic Pillars primarily impacted				
Material risk	**Customer First**	**Simple & Efficient**	**Risk & Capital**	**Talent & Culture**	**Principal risks and uncertainties**
Business model	✓	✓	✓		• Deterioration in the Irish or UK economy or in global economic conditions • Geopolitical developments, particularly in Europe and the US • Brexit and the UK • Impact of budgetary and taxation policies of the Irish, UK and other governments • The Group's strategy may not be optimal and/or not successfully implemented • Damage to the Group's brand • Risk of inadequate or non-effective Group risk management systems
Credit	✓	✓	✓		• Deterioration in the Irish or UK economy or in global economic conditions • Brexit and the UK • Impact of budgetary and taxation policies of the Irish, UK and other governments • Impact of Irish legislation and regulations in relation to mortgages • Credit risks, including concentration risk • Damage to the Group's brand • Risk of inadequate or non-effective Group risk management systems
Financial	✓		✓		• Risk that the funding position of its defined benefit pension schemes will deteriorate • Geopolitical developments, particularly in Europe and the US • Market risk • Damage to the Group's brand • Risk of inadequate or non-effective Group risk management systems
Capital Adequacy	✓	✓	✓		• Impact of the high level of criticised loans • The Group may have insufficient capital to meet increased minimum regulatory requirements • Risk that the funding position of its defined benefit pension schemes will deteriorate • Impact of changes in legislation affecting deferred tax assets • Impact of Bank Recovery and Resolution Directive • Credit risks, including concentration risk • Damage to the Group's brand • Risk of inadequate or non-effective Group risk management systems
Funding & Liquidity	✓	✓	✓		• Impact of Bank Recovery and Resolution Directive • Damage to the Group's brand • Impact of constraints on the Group's access to funding • Risk of inadequate or non-effective Group risk management systems
Regulatory Compliance	✓	✓	✓	✓	• Impact of laws and regulations, regulatory actions, fines and litigation • Impact of Anti-Money Laundering and terrorist financing regulations • Damage to the Group's brand • Risk of inadequate or non-effective Group risk management systems
Restructure Execution	✓	✓	✓		• Impact of the high level of criticised loans • Impact of Irish legislation and regulations in relation to mortgages • Damage to the Group's brand • Risk of inadequate or non-effective Group risk management systems
Conduct	✓	✓	✓	✓	• Conduct risk • Impact of a poor or inappropriate culture across the Group • Damage to the Group's brand • Risk of inadequate or non-effective Group risk management systems
People & Culture	✓	✓	✓	✓	• People Risk (including retention of staff in key senior management roles) • Impact of a poor or inappropriate culture across the Group • Damage to the Group's brand • Risk of inadequate or non-effective Group risk management systems
Operational	✓	✓	✓	✓	• Operational risks, cyber, outsourcing, fraud, process and systems risks • Damage to the Group's brand • Risk of inadequate or non-effective Group risk management systems
Model	✓	✓	✓		• Risk that the models used are inaccurate • Damage to the Group's brand • Risk of inadequate or non-effective Group risk management systems

Backing a sustainable future

Our Purpose is to back our customers to achieve their dreams and ambitions. We want to create long-term value in our business as well as the economies and communities in which we operate. By doing so, we will continue to merit our social licence to operate.

Our five stakeholder groups

Customers

Employees

Investors

Government & Society

Regulator

Rachel Botsman, award-winning expert on trust, at AIB's second Sustainability Conference in October

Understanding our role

We are working to become a truly sustainable bank that is not only profitable but also considerate of our role in society and the impact of our activities. As the leading bank in Ireland, our success is inextricably linked to the health of the Irish economy and the financial well-being of our customers. We are committed to delivering on our role and embedding a sustainable culture at every level of our business.

Continuing to rebuild trust among our five stakeholder groups – our customers, our people, investors, government/society and regulators – is key to ensuring long-term sustainability. We are actively listening and responding to our stakeholders. In 2018 we made solid progress in many ways across AIB.

How we govern sustainably

The Office of Sustainable Business (OSB) comprises a small, dedicated team that works across the bank to provide direction and focus for our sustainability agenda. The OSB also supports our CEO and the Executive Committee on the development of our approach. This work is overseen by the Sustainable Business Advisory Committee (SBAC), which provides guidance and advice to the Board of Directors.

Sustainability and risk

Managing the sustainability of our organisation involves identifying and managing all risks that relate to both day-to-day and future operations, as we detail in our Risk Management section on page 61 to 166. It also means anticipating and planning for environmental risk. We recognise the need to align our operational and lending risk frameworks, policies and practices to environmental, social and governance (ESG) principles. This will continue to be a focus for 2019.

Our progress in 2018

Stakeholders

- Completed an extensive materiality exercise, with 1,376 individuals contributing from our five stakeholder groups identifying our key material topics and macroeconomic issues.
- Hosted our second Sustainability Conference in October with over 400 stakeholders joining the conversation.
- Continued progress in how we handle complaints with the centralisation of complaints resulting in faster resolution times: from 27 to 13 days for complex complaints.

Reporting

- Published our second Sustainability Report, externally assured by Deloitte and reporting to globally recognised standards (Global Reporting initiative, GRI core option).

Risk

- Reviewed over 30 risk policies against the ISO 26000 Social Responsibility standard.

Environment

- Signed up to the Low Carbon Pledge, committing to reduce AIB's carbon emissions by 50% by 2030.
- Sponsored the Sustainable Nation/ Climate KIC inaugural Climate Week in November.
- Maintained our Climate A-rated status on the Carbon Disclosures Project (CDP), the only Irish company to achieve this.

We are not complacent; we know we must listen to all of our stakeholders' feedback and continue to enhance how we respond to them – in both behaviours and outcomes.

Engaging with our stakeholders

In 2018, we conducted an exercise among nearly 1,400 individuals representing our five stakeholder groups to identify the material topics and macroeconomic issues of most importance to them.

We asked individuals representative of our five stakeholder groups what are the things we can do – behaviours and actions – to rebuild their trust in AIB. With 1,376 responses, we identified the key material topics and macroeconomic issues that were most important. This exercise was then validated both internally, by the Office of Sustainable Business (OSB), and externally, by KPMG. The outputs of this exercise continue to inform our sustainability agenda internally and our external reporting, forming the basis of our second Sustainability Report, which was published in June 2018. We published both a detailed and summary report, which are available for download on aib.ie/sustainability.

Material topics

Our stakeholders were asked to choose from a range of material topics that are relevant to AIB's operations, and to rank these topics in terms of their importance in rebuilding trust in the bank.

We asked our stakeholders:

"In your opinion, what actions can be undertaken within the bank to continue to rebuild trust through responsible banking practices and operations?"

We compared the choices of our people with responses from our external stakeholders and made the 14 material topics of greatest significance to both groups our priority focus. These material topics form the basis of our Global Reporting Initiative (GRI) report, as detailed in the GRI Index appendix of our Sustainability Report.

Macroeconomic issues

We also wanted to know which macroeconomic issues – taking in social, environmental and economic themes – are most important to our stakeholders.

So we asked them:

"What are the social, environmental and economic issues that you believe AIB is best placed to address?"

We conducted interviews with our CEO and members of the Executive Committee and held workshops with internal and external stakeholders to validate the outputs from this exercise. We then formatted our Sustainability Report around the 11 chosen macroeconomic issues, illustrating how we are addressing each in our business and operations.

Our top material topics identified by stakeholders.

1. Making our services and products transparent to consumers
2. Engaging with all our stakeholders regularly
3. Protecting our customers' privacy and data
4. Pricing our products and services fairly
5. Improving our customer experience and satisfaction levels
6. Talent attraction, retention and development
7. Employee engagement and satisfaction
8. Providing business leadership and vision
9. Maintaining a profitable and financially sustainable business
10. Complying with laws, codes and regulations
11. Providing responsible services and products
12. Managing our business risks effectively
13. Our business culture and ethical behaviour
14. The stability, security and continuity of our business services

Macroeconomic issues identified by stakeholders.

1. Housing
2. Digitalisation
3. Business and personal lending
4. Entrepreneurship
5. Food production and sustainable agriculture
6. Brexit
7. Low-carbon economy
8. Financial literacy
9. Skills and training
10. Managing debt
11. Ageing population

For more information, see our Sustainability Report at aib.ie/sustainability

Listening and responding to our stakeholders: environment

In our materiality exercise our stakeholders identified their most important macroeconomic issues, which will be detailed in our 2018 Sustainability Report. Among these was the transition to a low-carbon economy. Some of the many ways we are supporting this issue are outlined below.

Our actions on climate change

To support the transition to a low-carbon economy we have established a lending centre of excellence, covering energy, climate action and infrastructure with a particular focus on supporting Ireland's decarbonisation. In 2018, we continued to support the development of low-carbon initiatives across our portfolio including investment in wind, solar and biomass.

We are committed to conducting our business and operations as energy-efficiently as possible, reducing our carbon footprint and striving to achieve continuous improvement in energy performance.

Reducing our carbon emissions

For all our major programmes, energy consumption impact is considered part of the investment appraisal. Our new corporate headquarters at 10 Molesworth Street will be the first newly-constructed office in Ireland to achieve platinum accreditation through the Leadership in Energy and Environmental Design (LEED) system of rating for sustainability. LEED is the most widely used green building rating system in the world.

In 2011 we set ourselves a target to reduce our Scope 1 & 2 CO_2 emissions by 33% by 2020 (using 2009 as our base year). By 2017 – the most recently available data – our overall carbon emissions were 29,525 tCO_2eq, a decrease of 10% year-on-year and 35% against our 2009 baseline, meaning we reached our target three years ahead of plan. We are committed to continual improvement and our approach is guided by the energy management standard ISO 50001. Our success in reducing emissions is delivered through our extensive energy management programme and coordinated energy reduction approach.

Low carbon pledge

In 2018 we signed the Business in the Community's Low Carbon Pledge, the first dedicated pledge generated by Irish business to set industry standards on sustainability and reduce carbon usage. Signatories to the pledge recognise that, in order to reach the global carbon reduction targets set in the Paris Agreement and maintain global temperatures at less than 2°C below pre-industrial levels, business must play a role. All signatories to the pledge commit to reducing their Scope 1 & 2 greenhouse gas emission intensity by 50% by 2030.

Sustainable business practices

In 2018, we continued to develop and roll out initiatives that deliver more sustainable operations. This includes reducing waste by eliminating single-use plastics and non-recyclable coffee cups from our catering operations and procuring 100% renewable electricity to power our operations across Ireland and the UK.

Climate change leadership

The CDP Climate A list report highlights companies around the world that lead in environmental performance and climate change action. In 2018, AIB was included on this list for the second year in a row, recognising our commitment to action against climate change.

CDP DISCLOSURE INSIGHT ACTION A LIST 2018 CLIMATE CHANGE

Our CO_2 emissions

	2017[1]	2009[1,2] (Baseline)
Total CO_2 emissions	**29,524.8**	45,868.6
Total Scope 1	**5,159.6**	11,514.2
Total Scope 2	**15,663.1**	21,271.9
Total Scope 3	**8,702.1**	13,082.4

Emissions in tonnes of CO_2 equivalent in line with the GHG Protocol: A Corporate Accounting and Reporting Standard and Defra Voluntary Reporting Guidelines.
Scope 1 emissions: Include Fuels combustion, AIB's fleet, Fugitive emissions.
Scope 2 emissions: Calculated using a location-based methodology and includes consumption of all purchased electricity.
Scope 3 emissions: Calculated for the following relevant Scope 3 categories: purchased goods and services, capital goods, waste generated in operations, business travel and employee commuting[3].

A third-party verification (ISO 14064-3) was completed for all reported emissions.

1. Reporting period: 1 January to 31 December.
2. Restated to improve the accuracy of reporting and reflect improved methodology in calculation of all categories of emissions reported.
3. More information regarding all our 2017 Scope emissions can be found in our latest CDP report.

Listening and responding to our stakeholders: society

Our stakeholders also told us how we can continue to rebuild their trust in us: through our leadership in key societal challenges and our own changing culture and behaviours.

Societal challenges

We continued to address many of the key challenges our stakeholders told us they wanted us to focus on in 2018. Highlights include:

- AIB financed over 4,700 new-build homes in addition to over 500 social housing properties.
- We supported customers managing the impact of Brexit through our 26 Brexit Advisors, dedicated reports and the AIB Brexit Ready Check.
- Our Future Sparks programme and event in April promoted inclusion and entrepreneurship and attracted over 5,500 second-level students from 230 schools.
- Our on-going support of Ireland's SME businesses with €1.272bn in new lending to business.

For further details on these activities, see Customer First on page 14. These issues and more will be further expanded in our Sustainability Report 2018, published in Q2 2019.

Finance & regulation

Our lending teams in the UK and Ireland provide finance to support the transition to a low-carbon economy and to respond to the most pressing of social issues, such as the current housing crisis in Ireland.

As we do this, we are conscious of the evolving environmental, social and governance (ESG) regulatory agenda and the need to comply with new requirements when they come on stream. We are contributing to the evolution of this regulation through consultation on proposed EU regulation for sustainable finance and in the roundtable discussions in the UK on PRA's consultation process for their proposed new supervisory statement on climate-related financial risks.

Backing a sustainable future

We held our second AIB Sustainability Conference in October. Over 400 stakeholders joined us in a unique setting @ Point Square to progress the conversation about the need for business to embrace a changing macroeconomic environment in order to be truly sustainable. Throughout the morning, we used the analogy of the cycle of the seasons to align with cycle of sustainable business growth: planning and investing through winter; planting in spring; nurture in summer; and harvest in autumn. Our speakers included John Mackey, CEO of Wholefoods, and Rachel Botsman from the Oxford Saïd Business School, who ended the conference on the theme of trust.

Culture review

The Central Bank of Ireland (CBI) culture review of Irish banks, completed in the summer of 2018, provided us with a great opportunity to pause and reflect on our cultural journey and take input from a number of sources to determine our next steps and key actions as we evolve. Aligning behind our Purpose is one way everyone working in AIB can have a clear focus on our customers. For details on how we are embedding our Purpose, see Talent & Culture on page 17.

Conduct & ethics

Our Code of Conduct establishes the principles that guide our decisions and actions. It calls on each of us collectively and individually to always do the right thing; to act honestly and transparently. Our Code of Conduct framework includes a Conflicts of Interests policy and a new Anti-Bribery and Corruption policy, which we launched in 2018.

We expect everyone working in AIB to live by our Code and annual training on it is a mandatory requirement, completion of which is overseen by senior management. Within our performance review process, known as Aspire, employees are required to attest to the Code. Our Code sets out that we don't partner with or buy from organisations which we know to breach human rights or fair practices. We require our key suppliers to attest to the Code, as well as other key policies and/or clauses applicable, including our Data Protection Policy and Environmental Policy, and where relevant to conform to the UK Modern Slavery Act.

The AIB Future Sparks event promoted inclusion and entrepreneurship

Our non-financial statement

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

The table below, and the summary information in it, is intended to help our stakeholders understand our position on key non-financial matters. This builds on existing reporting in our annual Sustainability Report, which is reported in accordance with the Global Reporting Initiative (GRI) standards and the Carbon Disclosures Project (CDP). Our Sustainability Report 2018 will be published in Q2 2019.

For more information, including policies we publish externally, see: aib.ie/sustainability

Reporting requirement	Policies	Information about our activities, policy outcomes and approach to risk management
Environmental matters	• Environmental Policy • Energy Policy	Listening and responding to our stakeholders: environment, page 22 See our CDP report on aib.ie/sustainability Risk Management, pages 61 to 166
Social and employee matters	• Code of Conduct • Recruitment Policy[1] • Data Protection Policy[1] • Speak Up Policy • Diversity & Inclusion Code, Policies on Leaves and Flexible Working[1], Board Diversity Policy	Listening and responding to our stakeholders: society, page 23 Talent & Culture, page 17 Simple & Efficient, page 15 Report of the Board Audit Committee, pages 186 to 191 Group Directors report, pages 168 to 170 Our communities, page 25 See our Board Diversity Policy on aib.ie/content/dam/aib/investorrelations/docs/about-aib/corporate-governance/board-diversity-policy.pdf Risk Management, pages 61 to 166
Respect for human rights	• Code of Conduct • Strategic Sourcing and Supplier Management Policy[1]	Listening and responding to our stakeholders: society, page 23 See AIB Group plc Modern Slavery Statement 2018 on aibgb.co.uk/help-and-guidance/important-information/modern-slavery-statement See our Health and Safety report on aib.ie/sustainability Risk Management, pages 61 to 166
Bribery and corruption	• Code of Conduct • Anti-Bribery & Corruption Policy • Conflict of Interests Policy • Anti-Money Laundering and Countering the Financing of Terrorism Policy[1]	Listening and responding to our stakeholders: society, page 23 See our General Statement on Anti-Money Laundering and Counter Terrorism Financing on group.aib.ie/legal Risk Management, pages 61 to 166

Reporting requirement	Key information	
Description of our business model	Inside front cover AIB in 2018, pages 2 and 3	
Principal risks relating to:		
• **Environmental matters**	Regulatory and legal risks, pages 63 and 64	
• **Social and employee matters**	Risks relating to business operations, governance and internal control systems, pages 65 to 68	
• **Respect for human rights**	Regulatory and legal risks, pages 63 and 64 and Risks relating to business operations, governance and internal control systems, pages 65 to 68	
• **Bribery and corruption**	Regulatory and legal risks, pages 63 and 64 These risks are managed within our overall risk management approach. They are linked to our strategic pillars on page 19.	
Policy due diligence	Risk Management, pages 61 to 166	
Non-financial key performance indicators	Environmental matters	CDP Rating, page 22
	Social and employee matters	Diversity and employee engagement: see Talent & Culture, page 17
	Respect for human rights	Mandatory requirement for annual completion of Code of Conduct training: see Conduct & ethics, page 23
	Bribery and corruption	Mandatory requirement for annual completion of Code of Conduct training: see Conduct & ethics, page 23

1. Some of our policies are not published externally.

Aoibheann O'Brien and Iseult Ward, founders of FoodCloud, an AIB key community partner

Our communities

2018 saw the launch of AIB Together, a bank-wide community programme introducing volunteer leave for every employee.

In March 2018, we launched AIB Together, a bankwide community programme focusing on core themes of Youth & Education and Entrepreneurship. Significantly, AIB Together also introduced volunteer leave, enabling our employees to each take two days' volunteering per year to support local charities and community organisations.

Our key community partners in the AIB Together programme are FoodCloud and Soar.

FoodCloud is a multi-award-winning social enterprise that enables the redistribution of surplus food from the food industry to the charity sector, with a vision for a world where no good food goes to waste. It has redistributed over 20 million kilos of food to over 9,500 charitable groups across Ireland and the UK, the equivalent of over 45 million meals. In addition to financial support, AIB employees volunteer with FoodCloud and its associated charities, donating over 1,000 hours since the launch of AIB Together. In 2018, AIB volunteers packed food that benefitted 25,000 individuals through 55,000 food packs, and over 350,000 meals have been prepared using products packed by AIB volunteers.

Soar is a collective movement for young people, creating and delivering early intervention-preventative wellness workshops for young people from all backgrounds aged between 12 and 18 years. Its workshops aim to empower young people to thrive, believe in themselves and fulfil their true potential. Soar has worked with over 27,000 young people since 2012 and saw a 55% increase from 2017 to 2018 in young people reached.

Time and again, employees across the Group get together to arrange a variety of events and initiatives that raise much-needed funds for charities close to their hearts. 2018 was no different, with a few examples being: employees and customers in the Clonakilty branch rowed 50km – from Clonakilty to Marymount – on two rowing machines raising funds for the Marymount Hospice; winners of the inaugural AIB Dublin Charity Golf Cup ensured their prize money went to Spina Bifida Ireland; our Direct Service teams in Naas and Airside held a fundraising raffle for Éist Cancer Support Centre in Carlow; employees from across the bank joined Junior Achievement Ireland (JAI) in facilitating educational opportunities for young people; and, once again, teams in AIB Technology took part in the annual Techies for Temple Street initiative.

Our GAA partnership

AIB has partnered with the GAA, Ireland's largest community organisation, in various guises for more than 30 years. Since 1991 we have sponsored the All-Ireland Club Championships, a competition we are very proud of. We are proud sponsors of the All Ireland Football Championship, giving us the opportunity to engage with the 1,700 GAA clubs and communities in Ireland all year round.

In May 2018, AIB reaffirmed our commitment to the GAA with another five-year sponsorship agreement to the end of 2022. Our partnership now incorporates: Title Sponsor of the Club Championships in Hurling, Football and Camogie, across Junior, Intermediate and Senior Levels; and Sponsor of the Senior Football Championships.

The AIB GAA Home Insurance Offering contributed €50 to any GAA club nationwide when a new home insurance policy was purchased by a member or supporter of that club. The offer ran from October 2016 to October 2018, with an overall investment of €140,000 from AIB funds into grassroots clubs, along with €1,000 jersey vouchers allocated to 12 clubs.

In December 2018, AIB presented the Jack and Jill Foundation with a cheque for €11,000, the result of a surplus from the AIB GAA Home Insurance Offering. The donation will provide over 680 home nursing hours for children who are born with or develop severe neuro developmental delay up to the age of five.

AIB's Board is collectively responsible for the long-term, sustainable success of the Group and ensuring there is a clear and cohesive corporate governance structure in place. The Board is fully aware of the importance of its role and is committed to upholding and fostering an environment of sound corporate governance standards.

Richard Pym
Chairman

"The ExCo has primary authority and responsibility for the day-to-day operations and strategic development of AIB Group"

Please read in conjunction with our 'Corporate Governance report' on page 174.

AIB's corporate governance standards are implemented by way of a comprehensive and coherent suite of frameworks, policies, procedures and standards covering corporate governance as well as business and financial planning and risk management activities. These are supported by a strong tone from the top on expected culture and behaviours. Such standards are overseen by the Nomination and Corporate Governance Committee, which reports regularly to the Board.

We have established internal arrangements that ensure compliance with relevant statutory and regulatory requirements as well as best-practice standards and guidelines. Our corporate governance framework underpins effective decision-making and accountability and forms the basis upon which we strive to conduct our business and engage with our customers and other stakeholders.

This framework was applied effectively during 2018, particularly with regard to succession planning, as outlined later in this report. The strength of AIB's corporate governance practices and standards facilitated the Board in making timely, well-informed decisions.

Examples of how our corporate governance structures have operated during 2018 are detailed in the 'Governance in Action' section on page 30.

The following pages provide a high-level account of how AIB applied the key principles of the UK Corporate Governance Code 2016 (the UK Code) during 2018. An index of specific references to compliance with the UK Code is outlined on page 33.

Corporate structure

AIB Group plc is the holding company of AIB Group and is an Irish registered company that has securities listed on the main markets of the Euronext Dublin and London Stock Exchanges. Allied Irish Banks, p.l.c. (AIB Bank) continues to be the principal operating and regulated financial services company and the only direct subsidiary of the holding company.

The Board and Board Committees of the holding company and AIB Bank comprise the same Directors, with Board and Board Committee meetings for these companies being held concurrently.

Corporate governance

As a listed company, AIB Group plc is subject to the provisions of the 2016 UK Code, to the listing rules of the Exchanges, including the Irish Corporate Governance Annex to the Euronext Dublin Stock Exchange Rules, the Disclosure & Transparency Rules of the London Stock Exchange and the Central Bank of Ireland's Transparency Rules.

The Central Bank of Ireland (CBI) Corporate Governance Requirements for Credit Institutions 2015 imposes standards upon all credit institutions licensed or authorised by the CBI. As the primary banking subsidiary of the holding company, AIB Bank is subject to these requirements and additional requirements outlined for High Impact Designated Institutions. AIB Bank is also subject to the corporate governance requirements for institutions deemed 'Significant' for the purposes of the European Capital Requirements Directive (CRD IV). Where appropriate, all corporate governance requirements and related policies and practices are applied across the holding company and AIB Bank.

Our leadership structure

Our Board

Our Board has 11 Directors, with a majority of Independent Non-Executive Directors. The Board currently comprises a Chairman, who was independent on appointment, two Executive Directors and eight Independent Non-Executive Directors, one of whom is the Senior

Independent Director (SID) and Deputy Chairman. Biographies for each Director can be found on pages 34 and 35.

The Nomination and Corporate Governance Committee is responsible for monitoring the composition of the Board and ensuring appropriate succession plans are in place.

During the second half of 2018, significant succession planning activities took place, with three long-serving Non-Executive Directors departing in 2019. These activities included the commencement of rigorous searches to identify suitable candidates of high calibre with the necessary skills and experience to succeed:

- Ms Catherine Woods, whose nine-year term concludes in October 2019. We searched for a candidate who can add value generally to the Board as a Non-Executive Director while also taking on Ms Woods' current role of Board Audit Committee Chairman.
- Mr Jim O'Hara, whose nine-year term also concludes in October 2019. We searched for a candidate who can add value generally to the Board as a Non-Executive Director while also taking on Mr O'Hara's current role of Remuneration Committee Chairman.
- Mr Peter Hagan, whose seven-year term concludes in July 2019. We searched for a candidate with a skill set in the areas of risk management and investment banking. A separate process is also underway to appoint a current Member of the Board Risk Committee as its Chairman in place of Mr Hagan.

Each of these processes require consultation with the Minister for Finance as well as submission of applications to the CBI and the European Central Bank (ECB) for fitness and probity assessment processes, prior to final Board approval.

In addition to these activities, during 2018 the Minister for Finance made nominations for the appointment of Directors as permitted under the Relationship Framework between AIB and the Irish State. Any such appointments also require the submission of fitness and probity applications to the CBI and the European Central Bank.

Market announcements will be made upon conclusion of these processes, in line with the applicable Listing Rules, unless a proposed appointment has been deemed inside information under the Market Abuse Regulation, in which case market announcements would be treated accordingly.

As announced previously, during late 2018, the two current Executive Directors, Mr Bernard Byrne, Chief Executive Officer (CEO), and Mr Mark Bourke, Chief Financial Officer (CFO), informed the Board of their intention to step down from their roles in early 2019.

On 14 December 2018, Dr Colin Hunt was announced as the Board's proposed successor to the role of CEO and Executive Director. The regulatory assessment processes relating to Dr Hunt's proposed appointments and a successor to the CFO role respectively are progressing well and are expected to finalise shortly.

In addition, it was announced on 27 February 2019, that Mr Simon Ball, a long-serving Independent Non-Executive Director, who would have reached his nine-year term on the Board during 2020, has noted his intention not to stand for re-election at this year's Annual General Meeting (AGM).

AIB Group Board

Board Audit Committee	Board Risk Committee	Remuneration Committee	Nomination and Corporate Governance Committee	Sustainable Business Advisory Committee
Quality and integrity of accounting policies, financial reporting and disclosure, internal control framework and audit	Risk management and compliance frameworks, risk appetite profile, concentrations and trends	Remuneration policies and practices, remuneration of Chairman, CEO, Executive Directors, ExCo and other senior management	Board composition, committee membership, corporate governance policies and practices, and succession planning	Support the Group with its sustainable business strategy. which includes the development and safeguarding of the bank's social licence to operate
See page 186 for further information	See page 192 for further information	See page 201 for further information	See page 196 for further information	See page 28 for further information
Board Committee	Board Committee	Board Committee	Board Committee	Advisory Committee

Our Committees
Board Committees
The Board has established a number of Board Committees, as identified in the table on page 27. The purpose of each Committee is detailed in their specific terms of reference. The Board retains ultimate responsibility for the decisions taken by its Committees. Further details are in the Corporate Governance Report which can be found on pages 174 to 185.

Sustainable Business Advisory Committee
The Sustainable Business Advisory Committee (SBAC) is an advisory committee to the Board. Its membership includes Non-Executive Directors and members of senior management. Since its establishment in 2016, SBAC has continued to enhance AIB's focus on building a long-term sustainable business. The Board has recently reaffirmed AIB's sustainability agenda as a priority for 2019 and beyond. Further details on our work on sustainability can be found on pages 20 and 25.

Executive Committee
Up to 31 October 2018, AIB's most senior executive committee was the Leadership Team. The introduction of the new operating model provided a timely opportunity to review our executive governance structures and ensure alignment with the following areas of focus: (i) becoming a single, purpose-led organisation, (ii) ensuring high standards and customer values are at the heart of decision-making, (iii) driving our values and strategy, and ensuring these are aligned with our culture, and (iv) empowering managers in order to allow our most senior leaders to focus on strategy, culture, people and performance matters.

The review resulted in the establishment of a refocused Executive Committee (ExCo) in November 2018. The ExCo has primary authority and responsibility for the day-to-day operations and strategic development of AIB.

The ExCo works with and advises the CEO, ensuring a collaborative approach to decision-making and collective ownership of strategy development and implementation.

Biographies for each ExCo member can be found on pages 36 and 37.

Diversity
Our Board recognises the benefits of diversity and embraces these benefits among its own members, with regard to diversity of skills, experience, background, gender and other qualities. The objective of the Board Diversity Policy is to achieve the most appropriate blend and balance of diversity possible over time, with focus remaining at all times on identifying the most suitable candidates to oversee the significant financial service activities and related requirements of AIB.

Under the Capital Requirements Directive, we are required to specifically address the under-represented gender on our Board. In the case of AIB, and many other organisations, the under-represented gender is female. Prior to the original Policy in 2015, there was one female on the Board. When the Policy was introduced and up until July 2018, the Policy stated the Board's objective of achieving or exceeding 25% female representation on the Board.

This target was exceeded in January 2018 and the Policy now aims to seek a minimum of 30% female representation on the Board by the end of 2020. As at 31 December 2018, the percentage of females on the Board was 27%. The Board is confident that it will achieve the new target.

The Policy and stated diversity targets are provided to external search firms who may be engaged in searches for potential new Board members, with the intention being to ensure a diverse selection of credible candidates for consideration. They are also provided to the Minister for Finance to facilitate his considerations when appointing nominees to the Board.

Unless otherwise advised, all Directors are subject to re-election by shareholders at the AGM and will be subject to annual re-election thereafter. The Board's view of the continued suitability of each Director is provided to shareholders to support their decision in advance of the AGM. The Board's composition remains under continuous review.

Leadership
There is a clear division of responsibilities between the Chairman, responsible for leadership of the Board and ensuring its effectiveness, and the CEO, responsible for running the business.

The Board is committed to providing a clear tone from the top on culture and expected behaviours. Further information is included in the Governance in Action section on page 30 to 32.

Non-Executive Directors constructively challenge and assist the ExCo in developing proposals on strategy and other material topics. Meetings are held by the Non-Executive Directors without the executives being present at least annually and ad hoc as required.

As part of the annual effectiveness evaluation, during 2018, led by the Senior Independent Director, the Board met without the Chairman present to appraise the Chairman's performance. Similarly, the Non-Executive Directors met without the executive present to appraise the CEO's performance.

In order to discharge their responsibilities effectively, Directors are expected to allocate sufficient time to their role on the Board. A minimum annual time commitment is agreed with each Non-Executive Director. Each Director is required to adhere to limitations on other external directorships and to seek prior approval should they wish to take on any additional external roles. In accordance with EBA and SMA Guidelines, enhancements were introduced during 2018 to the oversight and assessment mechanisms relating to suitability and time commitment.

Directors are expected to attend and to be well prepared for all Board and Committee meetings, while also making time to ensure their continued understanding of the business, engage with executives and regulators, and complete relevant training. Our Directors have proven themselves to be committed, affording the appropriate time for their duties.

An overview of the number of scheduled and out-of-course meetings held and attended by each Director can be found on page 34 and 35. If, due to exceptional circumstances, a Director is unable to attend a meeting, they ensure that their views are made known in advance of the meeting.

Effectiveness
The Board conducts an annual evaluation of its effectiveness, and is required to have an external evaluation conducted

once every three years. Having conducted a successful external evaluation in 2017, facilitated by Lintstock and reported in the Annual Financial Report 2017, an internal evaluation was carried out in 2018. The 2018 internal evaluation was led by the Chairman and was facilitated by Lintstock through formal questionnaires. The provision of these questionnaires and production of a consolidated report by Lintstock on the outcome of that aspect of the internal evaluation process allowed us to ascertain the progress made between the two evaluations.

Details of the full 2018 evaluation process, along with progress made in addressing any findings identified during the 2017 external evaluation, can be found on pages 183 and 184.

In addition to the questionnaire process, the Chairman held meetings with individual Directors to discuss their individual effectiveness and the Board's effectiveness more generally. Reviews of the Chairman's effectiveness and that of the CEO were also formally conducted during 2018.

We consider the independence of our Non-Executive Directors annually, using the independence criteria set out in the UK Code and the CBI's Corporate Governance Requirements for Credit Institutions 2015, having regard for the co-terminus appointments of the Directors to the Board of AIB Bank and the holding company. Any actual, potential or perceived conflicts of interest and certain behaviours that are essential in order to be considered independent are also continually monitored.

We currently exceed the necessary minimum ratio of independent Directors required on the Board, as determined by the UK Code. Excluding the Chairman, 80% of the Board is deemed independent, with the other 20% representing the two Executive Directors who are deemed non-independent by virtue of their executive roles.

Accountability

The Board is required to present a fair, balanced and understandable assessment of AIB's position and prospects, performance, business model and strategy. The Board Audit Committee and the Board Risk Committee regularly conduct a detailed review of AIB's risk management, internal control systems, financial record and reporting systems and provide reports for the Board's consideration. These matters are dealt with throughout this report, in particular on pages 186 to 195.

Remuneration

The Board fully appreciates its obligation to ensure that remuneration promotes the long-term sustainable success of AIB. The Board also acknowledges that there should be a formal and transparent procedure for developing policy, with all Directors exercising independent judgement and discretion when authorising remuneration outcomes, taking account of Group and individual performance and wider circumstances.

As you will see later in this report, the Group's Remuneration Policy is governed by restrictions contained in the Subscription and Placing Agreements in place with the Irish State.

In light of this, AIB is unable to implement a competitive, market-aligned compensation and benefit structure to retain and incentivise key executives. The need for meaningful change in this area was highlighted in our IPO prospectus and continually throughout 2018. The resignation of a number of senior executives during 2018, including the CEO and CFO, supports the Board's reported concerns. Heightened people risk and the continuing limitations on the Board's ability to exercise its authority and discretion over remuneration, in line with EBA Guidelines on Sound Remuneration Policies, remains of utmost concern to the Board.

At the 2018 AGM, the advisory vote on the Remuneration Policy put to shareholders was not carried. Under the UK Code, where a significant portion of votes have been cast against a resolution, we are required to explain, when announcing the results of voting, what actions we intend to take to understand the reasons behind the vote result. We reported at that time that the Minister for Finance, as majority shareholder on behalf of the Irish State, represented 76.09% of the total votes cast. Of the remaining 23.91% of shareholders who voted, 99.77% voted for the Remuneration Policy, while 0.23% voted against it. This reflected previous announcements, where institutional shareholders and proxy advisers recognised the need for a fit-for-purpose remuneration policy in the interests of all those invested in AIB.

We welcomed the Minister's intention in 2018 to establish a review on banking remuneration practices, which is consistent with the Board's objectives to address the elevated risk associated with the current remuneration structure. Our ability to retain and attract the skills necessary to maximise value for all shareholders, including the taxpayer, is in part dependent on our ability to compete with the remuneration practices of other employers. Accordingly, we look forward to the conclusion of the Minister's review of banking remuneration practices and will continue to engage with shareholders on this matter.

Engagement

Our Chairman and other Board representatives, including the CEO and CFO, regularly engage in investor relations activities to ensure that the Group's strategy and performance is being communicated effectively, and to receive a better understanding of investor views. We engaged with investors frequently and productively throughout 2018.

The SID is also available to shareholders should they wish to meet and discuss AIB matters. During 2018, Ms Woods met with shareholders in her capacity as SID to discuss matters including management changes following the announcements of the imminent departures of the CEO and CFO.

Reports on investor relations activity, along with regular reports of changes in holdings of substantial shareholders and on share price movements, are provided to the Board. Along with other planned events for the investor community, the AGM provides a good opportunity for the Board to engage with a broader group of shareholders.

Sound corporate governance standards are paramount to ensuring effective Board decision-making. The Board is fully aware of the importance of its role and is committed to upholding high standards and seeking continual enhancements. Here are some examples, at a high level, of where strong corporate governance standards were demonstrated throughout the year.

Succession planning

Recognising the level of anticipated change to Board membership due to the length of tenure of current Independent Non-Executive Directors, the Nomination and Corporate Governance Committee worked with the Group Company Secretary to enhance the existing Board succession plan and create a rolling three-year Board Succession Plan. The formulation of this plan included considerations such as: the skill set of the Board as a whole; the core skills of those Directors nearing the end of their terms; the collective suitability of the Board; and diversity.

The Committee dedicated extensive time to the plan, reviewing job descriptions and required skill sets for the upcoming roles, assessing potential search firms, reviewing candidate lists, conducting interviews and deliberating as to the most appropriate and suitable candidates for the roles.

Importantly, candidate specifications noted that, as a member of the Board, candidates would be required to promote AIB's purpose, values, strategy and culture ensuring their alignment and continually working to enhance focus on these areas across the Group. On meeting candidates, the Committee also considered whether they were of sufficient calibre and would enhance the Board's overall effectiveness, facilitating the Board in fostering a culture where a commitment to high standards and customer values is at the heart of decision-making.

In deciding on the most appropriate candidates for each role, the Committee assessed what skills the potential candidates would contribute, and how those skills would sit in the collective suitability of the Board.

Throughout 2018, five Non-Executive Director searches were conducted and will hopefully conclude successfully in early- to mid-2019, following a full fitness and probity assessment of proposed candidates by the Regulator.

Succession planning at executive level, led by the Chief Executive Officer (CEO) in conjunction with Group Human Resources and overseen by the Committee, was also a core focus in 2018. The work completed on executive succession planning to date and the continued monitoring of same by the Committee meant that the Group was well placed to react appropriately and initiate robust assessment and search processes upon the announcements of the resignation of the CEO and Chief Financial Officer (CFO). Immediate actions taken in response to the earlier notification of the CFO's intended resignation included the appointment of a Deputy CEO and Deputy CFO. Successors for appointment to the roles of CEO and CFO have also been identified and the regulatory approval process is ongoing. It is testament to the Group's succession planning processes and focus on developing our employees that a pool of credible, high-calibre, internal candidates were available for consideration as part of the succession processes.

Overseeing strategy development

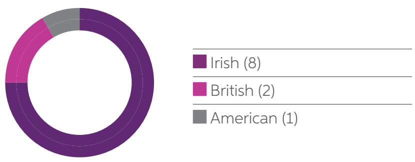
During the 2017 Board effectiveness evaluation, the Board requested that additional time be allocated on its agenda in order to consider strategy, including the longer-term outlook, the impact of changing technology and the competitive landscape. In response, and as part of the intended evolution of the wider integrated and focused strategic programme under the direction of the CEO and the Head of Group Strategy, dedicated time was allocated at Board meetings to focus on strategic items.

In May 2018, significant time was spent reviewing progress against the strategy agreed in late 2017, framing the agenda for the strategic considerations to take place over the remainder of the year, culminating in a robust full-day strategy session in November 2018.

This annual strategy session built on progress made at similar annual strategy sessions in recent years, and provided an open and interactive session for the Board and the executive team. The session concentrated on AIB's strategic priorities and the strategic plans supporting each of the new business areas of Homes, Business and Consumer (introduced as part of the new operating model on 1 January 2019). The content of the session was framed by AIB's four strategic pillars, with a focus on culture, conduct and sustainability throughout. Consideration was given to risk appetite, drivers of European banking change, customer and societal evolution and related implications, digital evolutions and strategic options available to AIB. The Board and members of the executive team openly debated these matters
and leveraged the broad range of experience represented at the session in developing the strategic programme for 2019.

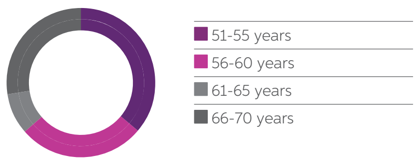
“The Board’s review and challenge of the proposed new operating model was central to its overall design and finalisation.”

Nationality

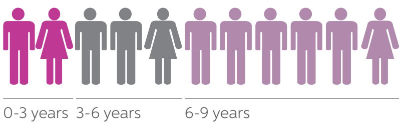


Executive vs Non-Executive Directors

Directors Age



Board Diversity by Tenure



The consistent message relayed during the session was the need to ensure continued focus on the Group’s Customer First strategic pillar and the clear commitment to fulfil AIB’s purpose.

Integrating the new operating model
AIB’s operating model was reviewed throughout 2018 to ensure it remained fit for purpose and was focused on delivering for the customer in a simple and efficient manner. The Board provided input into and constructive challenge to a new operating model prior to its approval and agreement in mid-2018. Following completion of regulatory fitness and probity assessment processes, it was approved and announced in November 2018, becoming effective on 1 January 2019.

This operating model was rolled out in tandem with developments in AIB’s property strategy, evolving agile working environments and a revised career model, all of which are positive developments in modernising, enhancing and simplifying our operations.

While the operating model did not result in a change to the Board and its governance structures specifically, the Board’s review and challenge of the proposed new model was central to its overall design and finalisation. Key areas of consideration by the Board included: the appropriateness of the design in the context of customers and conduct; the effective operation of the three lines of defence; the risk management and internal control framework; and the desire to modernise the business. The Nomination and Corporate Governance Committee considered the executive appointments to the Executive Committee and the heads of the newly identified business areas. The Board received regular updates on progress, including a risk assessment of the operating model’s implementation and progress in addressing any areas requiring greater focus.

Tone from the top
Culture was top of mind for the Board throughout 2018 and, following the 2018 effectiveness evaluation process, was specifically included as a Board priority.

In April 2018, the Chairman hosted a Tone from the Top event attended by the full Board and senior leaders from across the Group. The event saw each Director speaking openly about their experiences and their respective views of AIB. Directors shared their respective expectations of management across a number of matters, including culture, the need for openness and the escalation of any issues of concern, and the role of the Board to constructively challenge management. Management had the opportunity to submit questions in advance and raise questions on the day, with Directors openly responding to the audience.

Read more details in our Committee Reports in the Governance and Oversight section on pages 168 to 214.

A similar event will be held in 2019 to ensure the appropriate tone is set by the Board and to provide a positive opportunity for two-way engagement and communication between the Board and a wider management cohort.

The Board welcomed the Central Bank of Ireland (CBI) review in 2018 of Behaviour and Culture in the Banking Industry and Directors were kept abreast of events by management as the review progressed. CBI representatives attended the December 2018 Board meeting, which provided a welcome opportunity for the Board to engage on the topic of culture, to hear directly from the CBI and understand their expectations in terms of the Board's role in culture within the industry. The Board understands and fully appreciates that culture is about the behaviours that are encouraged and embedded across the Group as well as ensuring the implementation of robust conduct, risk management and internal control frameworks, processes and controls.

The Board also welcomed the establishment of the Irish Banking Culture Board (IBCB) in 2018, which is a progressive step in seeking to enhance the culture across the industry as a whole.

The IBCB conducted a survey of employees across the Irish banks in 2018. The outcome of this survey is under consideration in the context of the wider cultural programme of work underway across AIB. This includes internal employee surveys to gauge how best to leverage the outcomes of the survey and progress positively for the benefit of employees and other stakeholders.

Enhanced Board focus on culture continues as part of the 2019 Board work programme.

Sustainability conference keynote speaker John Mackay, CEO of Wholefoods Market, with AIB Chairman Richard Pym, CEO Bernard Byrne and Director Helen Normoyle

The table below outlines where you can find our disclosures on how AIB has applied the main principles of the UK Corporate Governance Code 2016 (2016 Code).

We welcome the introduction of the new UK Corporate Governance Code 2018 (2018 Code), which brings a sharper focus to key issues including the importance of a having a clear purpose and culture, the value of stakeholder engagement, and the evolution and continued importance of Board composition and succession planning.

The ethos of the updated 2018 Code is aligned with AIB's focus on ensuring long-term sustainability and taking meaningful action to continue to hold a social licence to operate. Given developments in these important areas of focus during 2018, the Board is satisfied that AIB is well positioned to continue to enhance performance and deliver meaningful compliance with key aspects of 2018 Code during 2019.

Under the Listing Rules and the Irish Corporate Governance Annex, companies are required to apply the main principles of the 2018 Code and report to shareholders on how they have done so. Our Statement of Compliance with the 2018 Code is on page 174.

Code Principle	Section	Page
A. Leadership		
Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.	• Demonstrating leadership through corporate governance	175
There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.	• Leadership • Demonstrating leadership through corporate governance	28 175
The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.	• Key roles and responsibilities	176
As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.	• Leadership • Overseeing strategy development • Key roles and responsibilities	28 30 176
B. Effectiveness		
The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.	• Board of Directors • Balance and independence • Diversity	34 183 185
There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.	• Succession planning • Board appointments	30 182
All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.	• Leadership • Terms of appointment and time commitment	28 182
All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.	• Our professional development and training programme • Induction and professional development	180 182
The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.	• How our Board meetings work	178
The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.	• Effectiveness • Board effectiveness • 2018 internal evaluation	28 183 183
All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.	• Terms of appointment and time commitment	182
C. Accountability		
The board should present a fair, balanced and understandable assessment of the company's position and prospects.	• Report of the Board Audit Committee • Viability Statement	186 211
The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.	• Risk Management – 2. Framework • Report of the Board Risk Committee • Internal controls	69 192 212
The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.	• Risk Management – 2. Framework • Report of the Board Audit Committee • Report of the Board Risk Committee • Internal controls	69 186 192 212
D. Remuneration		
Executive directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.	• Remuneration • Report of the Remuneration Committee • Corporate Governance Remuneration Statement	29 201 205
There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.	• Remuneration • Report of the Remuneration Committee • Corporate Governance Remuneration Statement	29 201 205
E. Relations with Shareholders		
There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.	• Engagement • Shareholder interaction	29 185
The board should use general meetings to communicate with investors and to encourage their participation.	• Engagement • Shareholder interaction	29 185

Board of Directors

					
Richard Pym	**Catherine Woods**	**Simon Ball**	**Tom Foley**	**Peter Hagan**	**Carolan Lennon**
Non-Executive Chairman (69)	**Senior Independent Non-Executive Director, Deputy Chairman (56)**	**Non-Executive Director (58)**	**Non-Executive Director (65)**	**Non-Executive Director (70)**	**Non-Executive Director (52)**
Nationality					
British	Irish	British	Irish	American	Irish
Date of appointment					
13 October 2014 Chairman Designate 1 December 2014 Chairman	13 October 2010	13 October 2011	13 September 2012	26 July 2012	26 October 2016
Committee membership (as at 31 December 2018)					
R N	A R N	R R N	A	A R	R S
Expertise					
Richard is a Chartered Accountant with extensive experience in financial services. He is a former Chairman of UK Asset Resolution Limited, the entity that manages the run-off of the UK government-owned closed mortgage books of Bradford & Bingley plc and NRAM Limited. Richard is a former Chairman of Nordax Bank AB (publ), The Co-operative Bank plc, Brighthouse Group plc and Halfords Group plc. He is a former Non-Executive Director of The British Land Company plc, Old Mutual plc and Selfridges plc. Richard was appointed as Chairman in 2014.	Catherine is former Vice President and Head of the JPMorgan European Banks Equity Research Team, where her mandates included the recapitalisation of Lloyds of London and the re-privatisation of Scandinavian banks. Catherine is a former director of An Post, a former member of the Electronic Communications Appeals Panel and a former Finance Expert on the government adjudication panel overseeing the rollout of the National Broadband Scheme. Catherine was appointed Senior Independent Non-Executive Director in January 2015 and subsequently Deputy Chairman of the Board on 1 January 2018.	Simon has previously held the roles of Chairman of Anchura Group Limited and Non-Executive Deputy Chairman and Senior Independent Director of Cable & Wireless Communications plc. Simon has also served as Group Finance Director of 3i Group plc and the Robert Fleming Group. As a Chartered Accountant, he has held a series of senior finance and operational roles at Dresdner Kleinwort Benson, and was Director General, Finance, for HMG Department for Constitutional Affairs. Simon is Senior Independent Director on the board of Commonwealth Games England and a Non-Executive Director of Birmingham Organising Committee for the 2022 Commonwealth Games Limited.	Tom qualified as a Chartered Accountant with PricewaterhouseCoopers and has extensive experience within financial services. He is a former Executive Director of KBC Bank Ireland and has held a variety of senior management and board positions with KBC in Ireland and the UK. During the financial crisis, Tom was a member of the Nyberg Commission of Investigation into the Banking Sector and the Department of Finance Expert Group on Mortgage Arrears and Personal Debt.	Peter is former Chairman and CEO of Merrill Lynch's US commercial banking subsidiaries and was also a Director of Merrill Lynch International Bank (London), Merrill Lynch Bank (Swiss), ML Business Financial Services and FDS Inc. Peter has held various executive positions across the international banking industry, including Vice Chairman and Representative Director of the Aozora Bank (Tokyo) and a Director of each of the US subsidiaries of IBRC. He is at present a consultant in the fields of financial service litigation and regulatory change.	Prior to her current role of CEO of Eir, Carolan held a variety of executive roles in Eir Limited, including Managing Director of open eir, Acting Managing Director Consumer and Chief Commercial Officer. Prior to joining Eir, she held a number of senior roles in Vodafone Ireland, including Consumer Director and Marketing Director. Carolan is a former Non-Executive Director of the DIT Foundation and the Irish Management Institute.
Key external appointments					
None	Chairman, Beazley Insurance d.a.c. Non-Executive Director, Beazley p.l.c. Non-Executive Director, BlackRock Asset Management Ireland Limited	Board member, Commonwealth Games England Non-Executive Director, Birmingham Organising Committee for the 2022 Commonwealth Games Limited	Non-Executive Director, Intesa Sanpaolo Life d.a.c. GCM Grosvenor Alternative Funds Master ICAV GCM Grosvenor Alternative Funds ICAV	None	Chief Executive Officer of Eir Sits on the Council of Patrons for Special Olympics Ireland

				
Helen Normoyle **Non-Executive Director (51)**	**Jim O'Hara** **Non-Executive Director (68)**	**Brendan McDonagh** **Non-Executive Director (60)**	**Bernard Byrne** **Chief Executive Officer, Executive Director (50)**	**Mark Bourke** **Chief Financial Officer, Executive Director (52)**
Nationality				
Irish	Irish	Irish	Irish	Irish
Date of appointment				
17 December 2015	13 October 2010	27 October 2016	24 June 2011	29 May 2014
Committee membership (as at 31 December 2018)				
S	A R N S	A R R	None	None
Expertise				
Helen is currently Marketing Director of Boots UK and Ireland. She started her career working for one of Europe's leading market research agencies, Infratest+GfK, based in Germany. Helen moved to Motorola, where she held senior positions as Director of Marketing and Director of Global Consumer Insights and Product Marketing. In 2003, Helen moved to Ofcom, the UK's Telecoms and Communications Regulator, as Director of Market Research. Helen also held the roles of Chief Marketing Officer at Countrywide, Chief Marketing Officer at DFS and Director of Marketing and Audiences at the BBC.	Jim is a former Vice President of Intel Corporation and General Manager of Intel Ireland, where he was responsible for Intel's technology and manufacturing group in Ireland. He is a past President of the American Chamber of Commerce in Ireland and former board member of Enterprise Ireland and Fyffes plc. Jim has acted as a Non-Executive Director of a number of indigenous technology start-up companies.	Brendan started his banking career with HSBC in 1979, working across Asia, Europe and North America, where he held various roles such as Group Managing Director for HSBC Holdings Inc, membership of the HSBC Group Management Board and CEO of HSBC North America Holdings Inc. Brendan is a former Director of Ireland's National Treasury Management Agency. He was previously the Executive Chairman of Bank of N.T. Butterfield & Son Limited.	Bernard started his career in 1988 in PricewaterhouseCoopers before moving in 1994 to ESB International as Commercial Director for International Investments. In 1998 he joined IWP International plc as Finance Director, and later Deputy CEO. In 2003, Bernard joined ESB as Group Finance Director. Before his appointment as Chief Executive Officer of AIB in May 2015, Bernard was an Executive Director on the AIB Board and held various executive positions such as Chief Financial Officer and Director of Personal, Business and Corporate Banking. Bernard was President of Banking and Payments Federation Ireland until December 2016 and President of the Institute of Banking Ireland until March 2018. Bernard announced his resignation from AIB Group in October 2018 and will depart in early 2019.	Mark joined AIB in April 2014 as Chief Financial Officer and Leadership Team member, and was co-opted to the Board in May 2014. He joined AIB from IFG Group plc where he held a number of senior roles, including Group Chief Executive Officer, Deputy Chief Executive Officer and Finance Director. Mark began his career at PricewaterhouseCoopers in 1989 and is a former partner in international tax services with PwC US in California. He is a member of Chartered Accountants Ireland and the Irish Taxation Institute. Mark announced his intention to resign from AIB Group in September 2018 and will depart on 1 March 2019.
Key external appointments				
Marketing Director, Boots UK and Ireland	Chairman, Decawave Limited (resigned from role in July 2018 but continues to act as a director of related subsidiary entity) Non-Executive Director, Wisetek Solutions Limited	Non-Executive Director, Audit Committee Chairman and member of the Risk and Nomination Committees of UK Asset Resolution Limited Serves on the Advisory Board of the Trinity College Dublin Business School, and on the Board of The Ireland Funds, Ireland Chapter Chairman, PEAL Investment Advisory Limited	None	None

Key to Committee membership

- A Board Audit Committee
- R Board Risk Committee
- R Remuneration Committee
- N Nomination and Corporate Governance Committee
- S Sustainability Business Advisory Committee

Executive Committee

Triona Ferriter (48)
Chief People Officer

Triona has 20 years' experience operating at a senior management level within both US multinational and indigenous Irish companies. Before working in the banking sector, her previous roles supported diverse business functions, including manufacturing, shared services and retail, mainly in the pharmaceutical sector. Triona has broad experience in driving high-performance cultures and leadership, and is a qualified Mechanical Engineer and a business and executive coach. Prior to joining AIB in 2017, she was a European Executive Director with MSD, a multinational Pharmaceutical organisation.

Donal Galvin (45)
Deputy CFO and Group Treasurer

Donal has worked in domestic and international financial markets over the last 20 years. Prior to joining AIB in 2013, he was Managing Director in Mizuho Securities Asia, the investment banking arm of Japanese bank Mizuho, where he was responsible for Asian Global Markets. Before that, he was a Managing Director in Dutch Rabobank, where his responsibilities included managing its London and Asian Global Financial Markets business as well as being Treasurer of Rabobank International.

Deirdre Hannigan (58)
Chief Risk Officer

Deirdre joined AIB from the National Treasury Management Agency where she was Chief Risk Officer and chaired the Executive Risk Committee. In prior years she held a number of senior international risk management roles with GE Capital. Before joining GE Capital she held progressively senior roles in Bank of Ireland primarily in Strategy and Risk Management. The early part of her career was spent working 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.

Colin Hunt (48)
Managing Director, Corporate, Institutional & Business Banking (and CEO Designate)

Colin joined AIB in August 2016 as Managing Director of Wholesale and Institutional Banking (WIB). Prior to joining AIB, he was Managing Director at Macquarie Capital, where he led the development of its business in Ireland. Previously, he was a Special Policy Adviser at the Departments of Transport and Finance, Research Director and Chief Economist at Goodbody Stockbrokers, Head of Trading Research and Senior Economist at Bank of Ireland Group Treasury and a country risk analyst at NatWest. In December 2018, Colin was proposed as AIB's next Chief Executive Officer.

Tom Kinsella (49)
Managing Director, Homes

Tom joined AIB in November 2012 as Group Marketing Director and was appointed Chief Marketing Officer and Leadership Team member in 2015. In his current role, to which he was appointed in November 2018, Tom has responsibility for meeting the Homes needs of all our customers across AIB, EBS and Haven brands. Prior to AIB, Tom worked in a variety of senior marketing roles in Diageo, working across a wide variety of brands both globally and domestically.

Robert Mulhall (45)
Managing Director, Consumer Banking

Robert's career in AIB has spanned almost 25 years, covering a variety of roles up to senior executive management level including leadership of Consumer Banking. He has overseen areas such as digital channels innovation, retail banking distribution, customer relationship management, business intelligence, strategic marketing and development, as well as sales management and operations. Outside of AIB, Robert held the position of Managing Director, Distribution & Marketing Consulting and Financial Services with Accenture in North America from 2013 to 2015, during which time he brought his industry experience and subject matter expertise to build a rapidly growing consulting practice in the fast-moving and innovative areas of financial services.

Brendan O'Connor (53)
Managing Director, AIB Group (UK) plc

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

Jim O'Keeffe (51)
Chief Customer & Strategic Affairs Officer

During his career Jim has worked across many aspects of banking, from IT to the retail business. From 2004 to 2008, he relocated to AIB's then subsidiary BZWBK in Poland as Head of Personal & SME Business Development. On his return to Ireland in 2009, he was appointed Head of AIB's Direct Channels before taking up the role of Head of AIB's Mortgage Business in June 2011. 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 NPLs in the period to 2018. He was appointed to his current role in November 2018.

Tomás O'Midheach (49)
Chief Operating Officer and Deputy CEO

Tomás has nearly 25 years' experience in the financial services industry, spanning many diverse areas of banking, including finance, data, customer analytics, direct channels and digital. Tomás spent 11 years with Citibank in the UK, Spain and Dublin, where he held several senior positions in finance. He joined AIB in June 2006 to lead a finance operating model transformation and has since held a number of senior executive positions, including Head of Direct Channels and Analytics and Chief Digital Officer.

Bernard Byrne (CEO) and Mark Bourke (CFO) and are also on the Executive Committee. Their biographies can be found on page 35.

This page has been intentionally left blank

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 and regulatory 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 55. These measures should be considered in conjunction with IFRS measures as set out in the consolidated financial statements from page 227. A reconciliation between the IFRS and management performance summary income statements is set out on page 56.

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

In 2018, the Group implemented the requirements of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* for the first time and, as permitted, has elected not to restate prior periods (comparative figures are presented on an IAS 39 and IAS 18 basis).

Re-presented 2017

As set out in note 1 (f) Accounting policies 'Interest income and expense recognition', 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. (The Group policy prior to the adoption of IFRS 9 was to recognise such income in interest income).

To aid comparability in the operating and financial review, the Group has re-presented the 2017 comparative taking account of the new classification of this income. Accordingly, € 61 million of income in 2017 was reclassified from 'Net interest income' and is now included in 'Net credit impairment writeback'.

Basis of calculation

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

Overview of income statement

The table below presents the Group's management performance summary income statement. This summary income statement should be considered in conjunction with IFRS measures as set out in the consolidated financial statements from page 227. A reconciliation between the IFRS and management performance summary income statements is set out on page 56.

Originally presented 2017 € m	Management performance - summary income statement	2018 € m	Re-presented 2017 € m	% change
2,176	Net interest income	2,100	2,115	-1
524	Business income	501	524	-4
267	Other items	125	267	-53
791	Other income	626	791	-21
2,967	Total operating income	2,726	2,906	-6
(711)	Personnel expenses	(730)	(711)	3
(601)	General and administrative expenses	(580)	(601)	-3
(116)	Depreciation, impairment and amortisation	(138)	(116)	19
(1,428)	Total operating expenses	(1,448)	(1,428)	1
1,539	**Operating profit before bank levies, regulatory fees, impairment and provisions**	1,278	1,478	-14
(105)	Bank levies and regulatory fees	(82)	(105)	-22
113	Net credit impairment writeback	204	174	17
8	Writeback of provisions for liabilities and commitments	-	8	-
1,555	**Operating profit**	1,400	1,555	-10
19	Associated undertakings	12	19	-37
-	Profit on disposal of property	2	-	-
1,574	**Profit from continuing operations before exceptional items**	1,414	1,574	-10
33	Gain on disposal of loan portfolios	147	33	-
1	Gain on transfer of financial instruments	1	1	-
(30)	Customer redress	(49)	(30)	-
(45)	Restitution and restructuring costs	(91)	(45)	-
(70)	Termination benefits	(21)	(70)	-
(65)	Property strategy costs	(81)	(65)	-
(41)	IFRS 9 and associated regulatory costs	(51)	(41)	-
-	Loss on disposal of business activities	(22)	-	-
(51)	IPO and capital related costs	-	(51)	-
(268)	Total exceptional items	(167)	(268)	-
1,306	**Profit before taxation from continuing operations**	1,247	1,306	-5
(192)	Income tax charge from continuing operations	(155)	(192)	-19
1,114	**Profit for the year**	1,092	1,114	-2

Net interest income

Net interest income	Net interest margin
€2,100m	**2.47%**

Net interest income	2018 € m	2017 € m	% change
Interest income[1]	2,330	2,403	-3
Interest expense[1]	(230)	(288)	-20
Net interest income	2,100	2,115	-1
Average interest earning assets	84,846	84,454	-
	%	%	Change
NIM[2]	2.47	2.50	-0.03
NIM - previous basis (see below)	*2.53*	*2.58*	*-0.05*

Average asset yield of 275 bps in 2018 was 10 bps lower than 2017. This reflected a change in the portfolio mix with increased volumes of loans and advances to banks, and reduced investment securities volumes. Yields on investment securities also decreased as higher yielding assets were sold or matured. Yields on loans and advances to customers decreased to 342 bps in 2018 from 347 bps in 2017. This was driven by mortgage rate reductions in 2017, partly offset by the reducing tracker mortgage book (average volume € 1.4 billion lower than 2017).

Interest expense

Interest expense of € 230 million in 2018 decreased by € 58 million compared to 2017, driven by lower average rates on customer accounts. Interest expense includes € 16 million interest received in respect of ECB TLTRO funds borrowed since 2016.

Net interest income

€2,100m

Net interest income of € 2,100 million was broadly stable compared to 2017. Lower income on investment securities was offset by a reduction in interest expense.

Interest income

Interest income of € 2,330 million in 2018 decreased by € 73 million compared to 2017 mainly driven by a reduction in investment securities volumes and yields, and lower yields on loans and advances to customers following mortgage rate reductions in 2017.

Average interest earning assets of € 84.8 billion in 2018 increased from € 84.5 billion in 2017. An increase in loans and advances to banks of € 2.3 billion was partly offset by a reduction in investment securities of € 1.6 billion and a reduction in NAMA senior bonds of € 0.5 billion. Loans and advances to customers were broadly stable with the positive impact of new lending partly offset by continued redemptions and deleveraging of non-performing loans.

Net interest margin

2.47%

NIM decreased 3 bps to 2.47% in 2018 from 2.50%[2] in 2017.

The material drivers of the NIM movement include:

- Increase in volumes of loans and advances to banks driven by excess liquidity levels c. -6 bps impact.
- Decrease in yields on loans and advances to customers, c. -3 bps impact, primarily due to mortgage rate reductions in 2017.
- Decrease in volumes and yields of investment securities c. -2bps impact.

Partly offset by:

- Decrease in rates on customer accounts c. +9 bps impact.

NIM - previous basis

The reported NIM in 2017 of 2.58% included the benefit of previously unrecognised interest income when a financial asset is no longer credit impaired or has been repaid in full (i.e. cured without financial loss). If the 2017 policy had been applied in 2018, NIM would increase from the reported NIM of 2.47% to 2.53%.

[1]Negative interest income on assets amounting to € 11 million in 2018 (2017: € 4 million) is offset against interest income. Negative interest expense on liabilities amounting to € 25 million in 2018 (2017: € 13 million) is offset against interest expense.
[2]Re-presented 2017 NIM 2.50% excludes previously unrecognised interest income when a financial asset is no longer credit impaired or has been repaid in full (i.e. cured without financial loss).

Net interest income *(continued)*

Average balance sheet

The table below provides a summary of the Group's average balance sheet, volumes and rates.

	Year ended 31 December 2018			Year ended 31 December 2017		
Assets	Average balance €m	Interest[(1)] €m	Average rate %	Average balance €m	Interest[(1)] €m	Average rate %
Loans and advances to customers	60,879	2,082	3.42	60,619	2,105	3.47
NAMA senior bonds	-	-	-	531	2	0.39
Investment securities	15,313	226	1.47	16,908	284	1.68
Loans and advances to banks	8,654	22	0.26	6,396	12	0.20
Average interest earning assets	84,846	2,330	2.75	84,454	2,403	2.85
Non-interest earning assets	7,176			7,165		
Total average assets	92,022	2,330		91,619	2,403	
Liabilities & equity						
Deposits by banks	2,771	2	0.06	5,071	(4)	(0.08)
Customer accounts	36,670	151	0.41	36,608	228	0.62
Subordinated liabilities	794	32	3.98	792	31	3.95
Other debt issued	5,220	45	0.87	5,659	33	0.59
Trading portfolio financial liabilities less assets	3	-	-	8	-	-
Average interest earning liabilities	45,458	230	0.51	48,138	288	0.60
Non-interest earning liabilities	32,986			30,141		
Equity	13,578			13,340		
Total average liabilities & equity	92,022	230		91,619	288	
Net interest income		2,100	2.47		2,115	2.50

[(1)]Negative interest income on assets amounting to € 11 million in 2018 (2017: € 4 million) is offset against interest income. Negative interest expense on liabilities amounting to € 25 million in 2018 (2017: € 13 million) is offset against interest expense.

Other income

Other income[1]

€626m

Business income

€501m

Other items

€125m

Other income	2018 € m	2017 € m	% change
Net fee and commission income[2]	**457**	449	*2*
Dividend income	**26**	28	*-7*
Net trading income[2][3]	**17**	42	*-60*
Miscellaneous business income	**1**	5	*-80*
Business income	**501**	524	*-4*
Net profit on disposal of investment securities	**15**	55	-
Net gain on equity investments measured at FVTPL[4]	**41**	-	-
Economic hedges of equity investments[3]	**(14)**	-	-
Net gain on loans and advances to customers measured at FVTPL[4]	**84**	-	-
Realisation/ re-estimation of cash flows on restructured loans	**-**	213	-
Settlements and other losses	**(1)**	(1)	-
Other items	**125**	267	-53
Other income	**626**	791	*-21*

Other income[1]

€626m

Other income decreased by € 165 million compared to 2017 driven by decreases in business income of € 23 million and other items of € 142 million. Net fee and commission income was broadly stable compared to 2017.

Business income

€501m

Net fee and commission income[2]

Net fee and commission income	2018 € m	2017 € m	% change
Customer accounts[2]	**211**	205	*3*
Card income	**85**	77	*10*
Lending related fees	**45**	47	*-4*
Customer related foreign exchange[2]	**71**	71	-
Other fees and commissions	**45**	49	*-8*
Net fee and commission income	**457**	449	*2*

Net fee and commission income of € 457 million in 2018 increased by € 8 million compared to 2017. Customer accounts and card income increased by € 6 million and € 8 million respectively, driven by higher volumes of transactions. Lending related fees decreased by € 2 million, with a decrease in other fees and commissions of € 4 million.

Dividend income

Dividend income was € 26 million in 2018, € 28 million in 2017. In 2018, € 23 million was received on NAMA subordinated bonds, compared to € 25 million received in 2017.

Net trading income[2][3]

Net trading income decreased by € 25 million compared to 2017 mainly due to a reduction of € 13 million in the valuations of long term customer derivative positions, a reduction in income on foreign exchange contracts, and a reduction in income on interest rate contracts and debt securities.

Other items

€125m

Other items were € 125 million in 2018, € 267 million in 2017.

Other items in 2018 included:

- Net profit of € 15 million on the disposal of investment securities.
- Net gain on equity investments measured at FVTPL of € 41 million. A partial hedge of the equity investments generated a net loss of € 14 million, of which € 10 million related to a total return swap.
- Net gain on loans and advances to customers measured at FVTPL of € 84 million. This represents income recognised on restructured loans.

Other items in 2017 included:

- Net profit of € 55 million on the disposal of investment securities.
- Realisation/ re-estimation of cash flows on restructured loans which resulted in income recognised of € 213 million. This included € 116 million of gains recognised on a small number of complex legacy property cases.

[1]Other income before exceptional items.
[2]Customer related foreign exchange income of € 58 million was reported at 31 December 2017 in ‘Net trading income’. Customer related foreign exchange branch commissions of € 13 million were reported at 31 December 2017 in ‘Customer accounts’ in ‘Net fee and commission income’. Both are now reported in ‘Customer related foreign exchange’ in ‘Net fee and commission income’ in both periods. See note 8 ‘Net fee and commission income’ and note 9 ‘Net trading income’ of the consolidated financial statements.
[3]Economic hedges of equity investments are reported in ‘Net trading income’ in the consolidated financial statements. See note 9 ‘Net trading income’.
[4]On 1 January 2018, the Group implemented the requirements of IFRS 9 *Financial Instruments*. Financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income (“FVOCI”) are measured at fair value through profit or loss (“FVTPL”). Gains or losses on such assets are recognised in the consolidated income statement.

Total operating expenses

Total operating expenses[1]	Cost income ratio[1]
€1,448m	**53%**

Operating expenses	2018 € m	2017 € m	% change
Personnel expenses	**730**	711	*3*
General and administrative expenses	**580**	601	*-3*
Depreciation, impairment and amortisation	**138**	116	*19*
Total operating expenses[1]	**1,448**	1,428	*1*
Staff numbers at year end[2]	**9,831**	9,720	*1*
Average staff numbers[2]	**9,801**	10,137	*-3*

Total operating expenses[1]

€1,448m

Total operating expenses of € 1,448 million increased by € 20 million compared to 2017. The increase in expenses was driven by increased depreciation, impairment and amortisation of € 22 million, and higher personnel expenses of € 19 million partly offset by lower general and administrative expenses of € 21 million.

Personnel expenses

Personnel expenses increased by € 19 million compared to 2017. This increase was due to the impact of both salary inflation and reduced numbers of staff working on capital projects, partly offset by the impact of lower average staff numbers. There was also a charge for a past service cost with regard to an increase in pensions in payment.

Average staff numbers decreased across the Group by 336 compared to 2017.

General and administrative expenses

General and administrative expenses decreased € 21 million compared to 2017, with decreases in professional fees spend and third party resourcing.

Depreciation, impairment and amortisation

The charge increased by € 22 million compared to 2017 as assets created under previous investment programmes were commissioned to operational use.

Cost income ratio[1]

53%

Costs of € 1,448 million and income of € 2,726 million resulted in a cost income ratio of 53% in 2018 compared to 49%[3] in 2017. The increase in the cost income ratio was mainly due to lower other income. This was driven by a lower net gain on loans and advances to customers measured at FVTPL compared to the realisation/ re-estimation of cash flows on restructured loans in 2017 and lower net profit on disposal of investment securities.

[1]Before bank levies, regulatory fees and exceptional items. Cost income ratio including these items was 63% in 2018 (2017: 61%).
[2]Staff numbers are on a full time equivalent (“FTE”) basis.
[3]Re-presented 2017 cost income ratio 49% excludes previously unrecognised interest income when a financial asset is no longer credit impaired or has been repaid in full (i.e. cured without financial loss).

Business review - 1. Operating and financial review

Bank levies and regulatory fees

€82m

Bank levies and regulatory fees	2018 € m	2017 € m
Irish bank levy	**(49)**	(49)
Deposit Guarantee Scheme	**(16)**	(38)
Single Resolution Fund/ BRRD[1]	**(18)**	(20)
Other	**1**	2
Bank levies and regulatory fees	**(82)**	(105)

Deposit Guarantee Scheme ("DGS") € 16 million in 2018 included writebacks of € 16 million in relation to amounts previously expensed under the legacy scheme.

Net credit impairment writeback

€204m

There was a net credit impairment writeback of € 204 million in 2018. This included € 120 million recoveries of amounts previously written-off and € 89 million writeback in relation to loans to customers. This writeback was due to changes in cash flow assumptions, recoveries and repayments, which were driven by increased security values and improved business cash flows associated with the stronger economic environment in Ireland. The recoveries of amounts previously written-off included € 44 million previously unrecognised interest income on financial assets that are no longer credit impaired or have been repaid in full (i.e. cured without financial loss).
In 2017 there was a net provision writeback of € 174 million.

See the Risk management section on page 107 for more information.

Income tax charge

€155m

The effective rate was 12.4% in 2018 compared to 14.7% in 2017. The effective tax rate is influenced by the geographic mix of profit streams which may be taxed at different rates. In addition, the 2018 rate reflected a tax deduction for equity distributions in current and prior years. For further information see note 19 'Taxation' of the consolidated financial statements.

Total exceptional items

€167m

Total exceptional items	2018 € m	2017 € m
Gain on disposal of loan portfolios	**147**	33
Gain on transfer of financial instruments	**1**	1
Customer redress	**(49)**	(30)
Restitution and restructuring costs	**(91)**	(45)
Termination benefits	**(21)**	(70)
Property strategy costs	**(81)**	(65)
IFRS 9 and associated regulatory costs	**(51)**	(41)
Loss on disposal of business activities	**(22)**	-
IPO and capital related costs	**-**	(51)
Total exceptional items	**(167)**	(268)

These gains/ costs were viewed as exceptional by management. For further detail on exceptional items see page 55.
Gain on disposal of loan portfolios. A number of loan portfolios were disposed of in 2018 which resulted in a gain of € 147 million (includes € 21 million net gain on loans and advances to customers measured at FVTPL).
Gain on transfer of financial instruments. Valuation adjustments on previous transfers of financial assets to NAMA.
Customer redress. Further provision required for redress and compensation in relation to tracker mortgage and other customer redress.
Restitution and restructuring costs associated with the payment of customer redress, customer write-offs, restructuring programmes and asset write-offs.
Termination benefits mainly relate to the cost of the voluntary severance programme in AIB UK and support functions.
Property strategy costs associated with the implementation of the Group property strategy including the exit from Bankcentre.
IFRS 9 and associated regulatory costs represent exceptional expenditure related to the embedding of IFRS 9 and associated regulatory requirements of the Group.
Loss on disposal of business activities relates to the recycling of cumulative unrealised foreign currency gains and losses following repatriation of part of the capital of foreign subsidiaries which have ceased trading.
IPO and capital related costs in 2017 include commissions and transaction advisory fees and expenses associated with the IPO and the implementation of the new Group holding company.

Return on tangible equity

12.4%

ROTE 12.4% in 2018 was broadly in line with ROTE of 12.3% in 2017.

[1] Bank Recovery and Resolution Directive.

Assets

Net loans to customers

€60.9bn

New term lending

€10.7bn

Assets	31 Dec 2018 € bn	1 Jan 2018[(1)] € bn	31 Dec 2017 € bn
Gross loans to customers	**62.9**	63.3	63.3
Loss allowance	**(2.0)**	(3.6)	(3.3)
Net loans to customers	**60.9**	59.7	60.0
Investment securities	**16.9**	16.3	16.3
Loans and advances to banks	**8.0**	7.7	7.7
Other assets	**5.7**	6.1	6.1
Total assets	**91.5**	89.8	90.1

Net loans to customers

€60.9bn

Net loans of € 60.9 billion increased by € 1.2 billion compared to € 59.7 billion at 1 January 2018. New term lending of € 10.7 billion exceeded redemptions of € 9.2 billion (including € 1.3 billion redemptions on non-performing loans).

New term lending

€10.7bn

New term lending of € 10.7 billion in 2018, € 1.3 billion higher (13%) than 2017 due to an increased demand for credit:

- RCB new term lending of € 4.9 billion up 7%, including mortgage lending up 16% with other lending broadly in line. The increase in mortgage lending is driven by a growing Irish mortgage market.
- WIB new term lending of € 4.0 billion up 24% driven primarily by real estate finance and syndicated lending.
- AIB UK new term lending of € 1.8 billion up 9% (up 10% excluding the impact of currency movements) primarily driven by FTB.

New transaction lending

New transaction lending of € 1.4 billion in 2018, € 0.3 billion higher (26%) than 2017 due to continued demand for transaction lending products, primarily revolving credit facilities.

New term lending, together with new transaction lending, amounted to € 12.1 billion in 2018 compared to € 10.5 billion in 2017.

Non-performing loans

€6.1bn

Non-performing loans decreased by € 3.5 billion compared to 1 January 2018. The reduction reflects redemptions of € 1.3 billion, loan portfolio sales of € 1.1 billion and write-offs and restructuring activity (including non-contracted write-offs) of € 1.0 billion.

Loss allowance

€2.0bn

Non-performing loan cover

27%

The loss allowance of € 2.0 billion at 31 December 2018 decreased from € 3.6 billion at 1 January 2018 reflecting customer write-offs, loan portfolio sales, and the impact of a stronger economic environment driving increased security values and improved business cash flows.

Non-performing loan cover

The loss allowance cover rate on non-performing loans of 27% at 31 December 2018 decreased from 33% at 1 January 2018.

Summary of movement in loans to customers

The table below sets out the movement in loans to customers from 31 December 2017 to 31 December 2018.

Loans to customers	Performing loans € bn	Non-performing loans € bn	Loans to customers € bn
Gross loans (closing balance 31 December 2017)	**53.1**	**10.2**	**63.3**
Harmonisation of definition of default at 1 January 2018[(2)]	**0.6**	**(0.6)**	**-**
Gross loans (opening balance 1 January 2018)	**53.7**	**9.6**	**63.3**
New term lending	**10.7**	**-**	**10.7**
Redemptions of existing loans[(3)]	**(7.9)**	**(1.3)**	**(9.2)**
Disposals	**-**	**(1.1)**	**(1.1)**
Write-offs and restructures	**-**	**(1.0)**	**(1.0)**
Net movement from non-performing	**0.4**	**(0.4)**	**-**
Foreign exchange movements	**0.1**	**-**	**0.1**
Other movements	**(0.2)**	**0.3**	**0.1**
Gross loans (closing balance 31 December 2018)	**56.8**	**6.1**	**62.9**
Loss allowance	**(0.4)**	**(1.6)**	**(2.0)**
Net loans (closing balance 31 December 2018)	**56.4**	**4.5**	**60.9**

(1) The 'Consolidated statement of financial position' as at 1 January 2018, has been restated to reflect the adoption of IFRS 9 and IFRS 15 which apply with effect from 1 January 2018. For further information see note 1 (c) 'Basis of preparation' and note 3 'Transition to IFRS 9' of the consolidated financial statements.
(2) Non-performing loans were revised from € 10.2 billion at 31 December 2017 to € 9.6 billion at 1 January 2018 reflecting the implementation and harmonisation of a new definition of default policy which aligns to accounting standards and EBA guidelines. For further information see page 121.
(3) New transaction lending is netted against redemptions given the revolving nature of these products.

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 risk profile of the Group and non-performing loans is available in the Risk management section on pages 62 to 166.

Loan portfolio profile **31 December 2018**	**Residential mortgages** **€ bn**	**Other personal** **€ bn**	**Property and construction** **€ bn**	**Non-property business** **€ bn**	**Total** **€ bn**
Gross loans to customers	**32.3**	**3.1**	**7.9**	**19.6**	**62.9**
Of which: Stage 3	**3.0**	**0.3**	**1.2**	**1.0**	**5.5**
Total loss allowance	**0.7**	**0.2**	**0.5**	**0.6**	**2.0**
Non-performing loans	**3.3**	**0.4**	**1.4**	**1.0**	**6.1**
Total loss allowance non-performing loans	**0.6**	**0.2**	**0.4**	**0.4**	**1.6**
Loss allowance cover non-performing loans (%)	**20%**	**50%**	**29%**	**36%**	**27%**
1 January 2018	€ bn	€ bn	€ bn	€ bn	€ bn
Non-performing loans[(1)]	4.6	0.5	2.8	1.7	9.6
Total loss allowance non-performing loans	1.3	0.3	1.0	0.6	3.2
Loss allowance cover non-performing loans (%)	28%	49%	36%	37%	33%
31 December 2017	€ bn	€ bn	€ bn	€ bn	€ bn
Loans and receivables to customers	33.7	3.1	8.8	17.7	63.3
Of which: Impaired	3.3	0.4	1.8	0.8	6.3
Balance sheet provisions (specific + IBNR)	1.4	0.2	1.1	0.6	3.3
Specific provisions/ Impaired loans (%)	34%	56%	51%	54%	43%
Total provisions/ Total loans (%)	4%	8%	12%	3%	5%

Non-performing loans **31 December 2018**	**Residential mortgages** **€ bn**	**Other personal** **€ bn**	**Property and construction** **€ bn**	**Non-property business** **€ bn**	**Total** **€ bn**
Collateral disposals	**0.2**	**0.1**	**0.4**	**0.1**	**0.8**
Unlikely to pay (including > 90 days past due)	**2.7**	**0.3**	**0.9**	**0.7**	**4.6**
Non-performing loans probation	**0.4**	**-**	**0.1**	**0.2**	**0.7**
Total non-performing loans	**3.3**	**0.4**	**1.4**	**1.0**	**6.1**
Total non-performing loans/ Total loans (%)	**10%**	**11%**	**18%**	**5%**	**10%**
31 December 2017	€ bn	€ bn	€ bn	€ bn	€ bn
Impaired	3.3	0.4	1.8	0.8	6.3
Greater than 90 days past due but not impaired	0.2	0.1	0.1	0.2	0.6
Non-impaired (unlikely to pay)	0.5	0.0	0.3	0.1	0.9
Non-default	0.8	0.1	0.7	0.8	2.4
Total non-performing loans	4.8	0.6	2.9	1.9	10.2
Total non-performing loans/ Total loans (%)	14%	18%	33%	11%	16%

Investment securities

Investment securities of € 16.9 billion held for liquidity and investment purposes have increased by € 0.6 billion compared to 31 December 2017.

Loans and advances to banks

Loans and advances to banks of € 8.0 billion were € 0.3 billion higher than 31 December 2017. Excess liquidity, driven by increased current accounts and proceeds from the issuance of debt and loan portfolio disposals, was partly offset by loan book growth and increased investment securities.

Other assets

Other assets of € 5.7 billion comprised:
- Deferred tax assets of € 2.7 billion, in line with 31 December 2017.
- Derivative financial instruments of € 0.9 billion, € 0.3 billion lower than 31 December 2017.
- Remaining assets of € 2.1 billion broadly in line with 31 December 2017.

(1) Non-performing loans were revised from € 10.2 billion at 31 December 2017 to € 9.6 billion at 1 January 2018 reflecting the implementation and harmonisation of a new definition of default policy which aligns to accounting standards and EBA guidelines. For further information see page 121.

Liabilities & equity

Customer accounts	Equity
€67.7bn	**€13.9bn**

Liabilities & equity	31 Dec 2018 € bn	1 Jan 2018[(1)] € bn	31 Dec 2017 € bn
Customer accounts	**67.7**	64.6	64.6
Deposits by central banks/ banks	**0.8**	3.6	3.6
Debt securities in issue	**5.7**	4.6	4.6
Other liabilities	**3.4**	3.7	3.7
Total liabilities	**77.6**	76.5	76.5
Equity	**13.9**	13.3	13.6
Total liabilities & equity	**91.5**	89.8	90.1
	%	%	%
Loan to deposit ratio	**90**	92	93

Customer accounts

€67.7bn

Customer accounts, increased by € 3.1 billion compared to 31 December 2017. Current accounts increased by € 3.7 billion reflecting continued strong economic activity and c. € 1 billion inflow as a result of a competitor exiting the market.

The loan to deposit ratio decreased to 90% at 31 December 2018 compared to 93% at 31 December 2017 driven by increased levels of customer accounts.

Deposits by central banks/ banks

Deposits by central banks/ banks of € 0.8 billion decreased by € 2.8 billion from 31 December 2017 driven by the repayment of TLTRO funds of € 1.9 billion and a reduced requirement for repos for liquidity management purposes.

Debt securities in issue

Debt securities of € 5.7 billion increased by € 1.1 billion from € 4.6 billion at 31 December 2017 following MREL issuance of two Senior EUR trades and one Senior USD trade. This completes € 1.65 billion of the Group's MREL requirement of c. € 4 billion. This was partly offset by the maturity of Asset Covered Securities ("ACS") of € 0.5 billion.

Other liabilities

Other liabilities of € 3.4 billion comprised:

- Subordinated liabilities of € 0.8 billion, unchanged from 31 December 2017.
- Derivative financial instruments of € 0.9 billion, € 0.3 billion lower than 31 December 2017.
- Remaining liabilities of € 1.7 billion, in line with 31 December 2017.

Equity

€13.9bn

Equity of € 13.9 billion increased by € 0.6 billion compared to € 13.3 billion at 1 January 2018.

The table below sets out the movements in the year.

Equity	€ bn
Closing balance (31 December 2017)	**13.6**
Impact of adopting IFRS 9 and IFRS 15 at 1 January 2018	**(0.3)**
Opening balance (1 January 2018)	**13.3**
Profit for the year	**1.1**
Other comprehensive income:	
Investment securities reserves	**(0.3)**
Cash flow hedging reserves/ other	**0.2**
Dividends/ distributions paid	**(0.4)**
Closing balance (31 December 2018)	**13.9**

(1)The 'Consolidated statement of financial position' as at 1 January 2018, has been restated to reflect the adoption of IFRS 9 and IFRS 15 which apply with effect from 1 January 2018. For further information see note1 (c) 'Basis of preparation' and note 3 'Transition to IFRS 9' of the consolidated financial statements.

Business review - 1. Operating and financial review

Segment reporting

Segment overview

The Group was managed through the following business segments: Retail & Commercial Banking (“RCB”)*, Wholesale, Institutional & Corporate Banking (“WIB”)*, AIB UK* and Group during 2018. As set out in the ‘Basis of presentation’ on page 40, to aid comparability, the Group has re-presented the 2017 segments’ performance statements whereby previously unrecognised interest income on a financial asset that is no longer credit impaired or has been repaid in full (i.e. cured without financial loss) has been reclassified from ‘Net interest income’ and is now included in ‘Net credit impairment writeback’.

Segment allocations

The segments’ performance statements include all income and direct costs before exceptional items and exclude certain overheads which are managed centrally, the costs of which are included in the Group segment. Funding and liquidity 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.

*Within the above segments, the Group has migrated the management of the vast majority of its non-performing loans to the Financial Solutions Group (“FSG”), a standalone dedicated workout unit which supports personal and business customers in financial difficulty, leveraging on FSG’s well-resourced operational capacity, workout expertise and skill set. FSG has developed a comprehensive suite of sustainable solutions for customers in financial difficulty.

Retail & Commercial Banking ("RCB")

RCB contribution statement	2018 € m	2017 € m	% change
Net interest income	1,346	1,381	-3
Business income	336	329	2
Other items	71	204	-65
Other income	407	533	-24
Total operating income	1,753	1,914	-8
Total operating expenses	(750)	(769)	-2
Operating contribution before bank levies, regulatory fees, impairment and provisions	1,003	1,145	-12
Net credit impairment writeback	241	187	29
Writeback of provisions for liabilities and commitments	-	10	-
Operating contribution	1,244	1,342	-7
Associated undertakings	10	14	-29
Loss on disposal	-	(1)	-
Contribution before exceptional items	1,254	1,355	-7

RCB balance sheet metrics	31 Dec 2018 € bn	31 Dec 2017 € bn	% change
Mortgages	2.8	2.4	16
Personal	0.8	0.8	5
Business	1.3	1.4	-6
New term lending	4.9	4.6	7
New transaction lending	0.2	0.2	-5

	31 Dec 2018 € bn	1 Jan 2018(1) € bn	31 Dec 2017 € bn
Mortgages	30.8	32.2	32.2
Personal	3.0	3.0	3.0
Business	7.2	8.5	8.5
Legacy distressed loans(2)	0.5	0.7	0.7
Gross loans	41.5	44.4	44.4
Loss allowance	(1.8)	(3.2)	(3.0)
Net loans	39.7	41.2	41.4
Current accounts	25.6	22.6	22.6
Deposits	24.7	24.0	24.0
Customer accounts	50.3	46.6	46.6

Net interest income
€1,346m Net interest income has decreased by € 35 million in 2018 reflecting the impact of lower loan volumes due to redemptions and deleveraging of non-performing loans and the impact of reductions in mortgage rates. These were partly offset by the positive impact of new lending growth and lower cost of deposits.

Other income
€407m Business income increased by € 7 million driven by increased net fee and commission income due to higher volumes of transactions. Other items of € 71 million primarily related to a net gain on loans and advances to customers measured at FVTPL of € 63 million. In 2017 other items of € 204 million primarily related to realisation/ re-estimation of cash flows on loans previously restructured.

Total operating expenses
€750m Total operating expenses decreased by € 19 million driven by a decrease in professional fees spend and third party resourcing. This was partly offset by an increase in depreciation as assets created under previous investment programmes were commissioned to operational use.

Net credit impairment writeback
€241m There was a net credit impairment writeback of € 241 million in 2018. This was due to changes in cash flow assumptions, recoveries and repayments, which were driven by increased security values and improved business cash flows associated with the stronger economic environment in Ireland. In 2017 there was a net provision writeback of € 187 million.

New term lending
€4.9bn New term lending € 4.9 billion up 7%, driven by growth in mortgage lending as activity in the mortgage market increases.

New transaction lending of € 0.2 billion in 2018, down 5% from 2017.

Net loans
€39.7bn Net loans decreased by € 1.5 billion compared to 1 January 2018 driven by the disposal of non-performing loan portfolios of € 0.6 billion, and redemptions and write-offs in the non-performing loan book. Performing loans increased by € 0.4 billion.

Loss allowance
€1.8bn The loss allowance of € 1.8 billion at 31 December 2018 decreased by € 1.4 billion from € 3.2 billion at 1 January 2018 reflecting customer write-offs, loan portfolio sales, and the impact of a stronger economic environment driving increased security values and improved business cash flows.

Customer accounts
€50.3bn Customer accounts increased by € 3.7 billion compared to 31 December 2017 with increased current accounts of € 3.0 billion. The increase reflected continued strong economic activity and c. € 1 billion inflow as a result of a competitor exiting the market.

(1)The 'Consolidated statement of financial position' as at 1 January 2018, has been restated to reflect the adoption of IFRS 9 which applies with effect from 1 January 2018. For further information see note 1 (c) 'Basis of preparation' and note 3 'Transition to IFRS 9' of the consolidated financial statements.
(2)Larger legacy distressed loans that have been subject to restructuring arrangements and are managed through the loan restructuring unit in RCB.

Business review - 1. Operating and financial review

Wholesale, Institutional & Corporate Banking ("WIB")

WIB contribution statement	2018 € m	2017 € m	% change
Net interest income	312	264	18
Other income	74	49	51
Total operating income	386	313	23
Total operating expenses	(100)	(91)	10
Operating contribution before bank levies, regulatory fees, impairment and provisions	286	222	29
Net credit impairment writeback/ (losses)	(16)	1	-
Provisions for liabilities and commitments	-	(2)	-
Operating contribution	270	221	22
Associated undertakings	-	2	-
Contribution before exceptional items	270	223	21

WIB balance sheet metrics	31 Dec 2018 € bn	31 Dec 2017 € bn	% change
New term lending	4.0	3.2	24
New transaction lending	0.8	0.5	54

	31 Dec 2018 € bn	1 Jan 2018[1] € bn	31 Dec 2017 € bn
Gross loans	12.8	10.3	10.3
Loss allowance	(0.1)	(0.0)	(0.0)
Net loans	12.7	10.3	10.3
Current accounts	4.2	3.7	3.7
Deposits	1.5	2.0	2.0
Customer accounts	5.7	5.7	5.7

Net interest income

€312m Net interest income increased by € 48 million compared to 2017. The increase was driven by strong lending growth, particularly in syndicated lending and real estate finance.

Other income

€74m Other income increased by € 25 million compared to 2017. The increase was largely driven by other items including a net gain on equity investments measured at FVTPL and a net gain on loans and advances to customers measured at FVTPL.

Total operating expenses

€100m Total operating expenses increased by € 9 million compared to 2017. The increase was primarily driven by increased personnel costs to support growth in the business.

Net credit impairment writeback/ (losses)

(€16)m There was a net credit impairment loss of € 16 million in 2018. This was driven by additional expected credit losses arising from growth in the loan portfolio since 31 December 2017 and a lower level of impairment writebacks in 2018. In 2017 there was a net provision writeback of € 1 million.

New term lending

€4.0bn New term lending increased by € 0.8 billion compared to 2017. The growth was primarily driven by syndicated lending up € 0.4 billion where markets remained active in Europe and the US, and in real estate finance up € 0.4 billion which benefitted from a small number of large transactions in the Irish market.

New transaction lending of € 0.8 billion in 2018, € 0.3 billion higher (54%) than 2017 driven by demand from corporate customers.

Net loans

€12.7bn Net loans of € 12.7 billion at 31 December 2018 increased by € 2.4 billion compared to € 10.3 billion at 1 January 2018. The increase was primarily driven by syndicated lending up € 1.4 billion and real estate finance up € 0.6 billion.

Customer accounts

€5.7bn Current accounts of € 4.2 billion were € 0.5 billion higher than 31 December 2017. Current accounts increased while deposits decreased by € 0.5 billion.

[1]The 'Consolidated statement of financial position' as at 1 January 2018, has been restated to reflect the adoption of IFRS 9 which applies with effect from 1 January 2018. For further information see note 1 (c) 'Basis of preparation' and note 3 'Transition to IFRS 9' of the consolidated financial statements.

AIB UK

AIB UK contribution statement	2018 £ m	2017 £ m	% change
Net interest income	224	206	9
Other income	45	61	-26
Total operating income	269	267	1
Total operating expenses	(108)	(116)	-7
Operating contribution before bank levies, regulatory fees, impairment and provisions	161	151	7
Bank levies and regulatory fees	1	2	-50
Net credit impairment losses	(18)	(13)	38
Operating contribution	144	140	3
Associated undertakings	2	3	-33
Profit on disposal	2	1	100
Contribution before exceptional items	148	144	3
Contribution before exceptional items €m	168	164	2

AIB UK balance sheet metrics	31 Dec 2018 £ bn	31 Dec 2017 £ bn	% change
AIB GB	1.2	1.2	3
FTB	0.4	0.3	43
New term lending	1.6	1.5	10
New transaction lending	0.4	0.3	10

	31 Dec 2018 £ bn	1 Jan 2018[1] £ bn	31 Dec 2017 £ bn
AIB GB	5.4	5.2	5.2
FTB	2.2	2.4	2.4
Gross loans	7.6	7.6	7.6
Loss allowance	(0.2)	(0.3)	(0.3)
Net loans	7.4	7.3	7.3
Current accounts	5.8	5.6	5.6
Deposits	3.1	3.4	3.4
Customer accounts	8.9	9.0	9.0

Net interest income

£224m Net interest income increased by £ 18 million compared to 2017 due to margin expansion following UK base rate increases in November 2017 and August 2018.

Other income

£45m Other income decreased by £ 16 million compared to 2017. Net fee and commission income was in line with 2017. Net profit on disposal of investment securities was nil in 2018 compared to £ 13 million in 2017. Loss on disposal of loans was £ 4 million in 2018 compared to nil in 2017.

Total operating expenses

£108m Total operating expenses decreased by £ 8 million compared to 2017 driven by lower staff numbers, following the implementation of a new operating model in 2017.

Net credit impairment losses

(£18m) There was a net credit impairment loss of £ 18 million in 2018. In 2017 there was a net provision charge of £ 13 million.

New term lending

£1.6bn New term lending of £ 1.6 billion in 2018, increased by 10% compared to 2017 driven by business lending in FTB.

New transaction lending of £ 0.4 billion in 2018, £ 0.1 billion higher (10%) than 2017.

Net loans

£7.4bn Net loans of £ 7.4 billion increased by £ 0.1 billion compared to 1 January 2018.

Customer accounts

£8.9bn Customer accounts of £ 8.9 billion at 31 December 2018 decreased from £ 9.0 billion in 2017.

[1] The 'Consolidated statement of financial position' as at 1 January 2018, has been restated to reflect the adoption of IFRS 9 which applies with effect from 1 January 2018. For further information see note 1 (c) 'Basis of preparation' and note 3 'Transition to IFRS 9' of the consolidated financial statements.

Business review - 1. Operating and financial review

Group

Group contribution statement	2018 € m	2017 € m	% change
Net interest income	**188**	236	*-20*
Other income	**94**	139	*-32*
Total operating income	**282**	375	*-25*
Total operating expenses	**(477)**	(436)	*9*
Operating contribution before bank levies, regulatory fees, impairment and provisions	**(195)**	(61)	*220*
Bank levies and regulatory fees	**(83)**	(107)	*-22*
Contribution before exceptional items	**(278)**	(168)	*65*

Group balance sheet metrics	31 Dec 2018 € bn	1 Jan 2018[1] € bn	31 Dec 2017 € bn
Gross loans	**0.1**	0.1	0.1
Investment securities	**16.9**	16.3	16.3
Customer accounts	**1.7**	2.2	2.2

Net interest income

€188m Net interest income decreased by € 48 million compared to 2017 mainly due to lower income from the investment securities portfolio, as yields and average balances decreased, and higher cost of debt issuances in 2018.

Other income

€94m Other income decreased by € 45 million compared to 2017 due to lower net profit on disposal of investment securities, a reduction in valuations of long-term customer derivative positions and lower income on non-customer foreign exchange contracts.

Total operating expenses

€477m Total operating expenses increased by € 41 million compared to 2017 reflecting the impact of salary inflation and an increase in depreciation as assets created under previous investment programmes were commissioned to operational use partly offset by lower average staff numbers in support functions. There was also a charge for a past service cost with regard to an increase in pensions in payment.

Bank levies and regulatory fees

€83m Bank levies and regulatory fees of € 83 million in 2018 included the Irish bank levy € 49 million, Deposit Guarantee Scheme € 16 million (included writebacks of € 16 million) and the Single Resolution Fund € 18 million.

Investment securities

€16.9bn Investment securities of € 16.9 billion held for liquidity and investment purposes increased by € 0.6 billion compared to 31 December 2017.

Customer accounts

€1.7bn Customer accounts decreased by € 0.5 billion compared to € 2.2 billion at 31 December 2017 mainly due to maturity of term deposits and a reduction in repos.

[1]The 'Consolidated statement of financial position' as at 1 January 2018, has been restated to reflect the adoption of IFRS 9 which applies with effect from 1 January 2018. For further details see note 1 (c) 'Basis of preparation' and note 3 'Transition to IFRS 9' of the consolidated financial statements.

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 average balance sheet categories divided by corresponding average balance.
Average balance	Average balances for interest-earning assets are based on daily balances for all categories with the exception of loans and advances to banks, which are based on a combination of daily/ monthly balances. Average balances for interest-earning liabilities are based on a combination of daily / monthly balances, with the exception of customer accounts which are based on daily balances.
CET1 Fully loaded	Total common equity tier 1 capital on a fully loaded basis divided by total risk weighted assets on a fully loaded basis.
CET1 Transitional	Total common equity tier 1 capital on a transitional basis divided by total risk weighted assets on a transitional basis.
Cost income ratio	Total operating expenses excluding exceptional items, bank levies and regulatory fees divided by total operating income excluding exceptional items.
Non-performing loan cover	Loss allowance on non-performing loans as a percentage of non-performing loans.
Exceptional items	These are items that management view as distorting comparability of performance from period to period; *- Gain on disposal of loan portfolios* in reducing the Group's level of non-performing loans. This includes gain on disposals and net gain on other financial assets measured at FVTPL. *- Gain on transfer of financial instruments.* Valuation adjustments on previous transfers of financial assets to NAMA. *- Customer redress.* Customer redress and compensation in relation to tracker mortgage and other customer redress. *- Restitution and restructuring costs* associated with the payment of customer redress, customer write-offs, restructuring programmes and asset write-offs. *- Termination benefits.* The cost associated with the reduction in employees arising from the voluntary severance programme. *- Property strategy costs* associated with the implementation of the Group's property strategy e.g. onerous lease contracts and impairment of assets. It includes a new Headquarters along with the exit from Bankcentre. *- IFRS 9 and associated regulatory costs*. The revenue costs of embedding IFRS 9 and associated regulatory requirements of the Group. *- Loss on disposal of business activities.* The repatriation of part of the capital of foreign subsidiaries which have ceased trading resulting in the transfer of a pro-rata amount of the foreign currency cumulative translation reserve to the income statement. *- IPO and capital related costs* relate to the IPO and the implementation of a new AIB Group holding company in 2017.
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. (Net interest income in 2017 has been re-presented for comparability purposes).
Net interest margin - previous basis	Net interest income including previously unrecognised interest income when a financial asset is no longer credit impaired or has been repaid in full (i.e. cured without financial loss) 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 and off-balance sheet commitments such as loan commitments and financial guarantee contracts.
Return on tangible equity (ROTE)	Profit after tax from continuing operations plus reduction in carrying value of deferred tax assets in respect of prior losses, less coupons on other equity instruments, divided by targeted (13 per cent.) CET1 capital on a fully loaded basis plus deferred tax assets recognised for unutilised tax losses in equity. In assessing capital efficiency, ROTE reflects performance given capital requirements and the nature and quantum of deferred tax assets recognised for unutilised tax losses in equity.
Management performance - summary income statement	A reconciliation between the IFRS and management performance summary income statements is set out on page 56. Given the impact of the adjustments, the following line items in the management performance summary income statement are considered APMs: • Net interest income (2017 only) • Other income • Total operating income • Total operating expenses • Operating profit before bank levies, regulatory fees, impairment and provisions • Bank levies and regulatory fees • Net credit impairment writeback (2017 only) • Operating profit • Profit on disposal (2018 only) • Profit from continuing operations before exceptional items • Total exceptional items

Business review - 1. Operating and financial review

Reconciliation between IFRS and management performance summary income statements

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 below. Given the impact of the adjustments, the line items as listed in 'Management performance - summary income statement' in the APMs on page 55 are considered APMs.

IFRS - summary income statement	2018 € m	2017 € m
Net interest income	2,100	2,176
Other income	774	825
Total operating income	2,874	3,001
Total operating expenses	(1,823)	(1,835)
Operating profit before impairment losses and provisions	1,051	1,166
Net credit impairment writeback	204	113
Writeback of provisions for liabilities and commitments	-	8
Operating profit	1,255	1,287
Associated undertakings	12	19
Profit/ (loss) on disposal	(20)	-
Profit before taxation from continuing operations	1,247	1,306
Income tax charge from continuing operations	(155)	(192)
Profit for the year	1,092	1,114

Adjustments - between IFRS and management performance		2018	2018	2017	2017
Net interest income	**of which: interest on cured loans**[1]	-	-	(61)	(61)
Other income	**of which: exceptional items**				
	Gain on disposal of loan portfolios	(147)		(33)	
	Gain on transfer of financial instruments	(1)	(148)	(1)	(34)
Total operating expenses	**of which: bank levies and regulatory fees**	82	82	105	105
	of which: exceptional items				
	Customer redress	49		30	
	Restitution and restructuring costs	91		45	
	Termination benefits	21		70	
	Property strategy costs	81		65	
	IFRS 9 and associated regulatory costs	51		41	
	IPO and capital related costs	-	293	51	302
Net credit impairment writeback	**of which: interest on cured loans**[1]	-	-	61	61
Loss on disposal	**of which: exceptional items**				
	Loss on disposal of business activities	22	22	-	-

Management performance - summary income statement	2018 € m	Re-presented 2017 € m
Net interest income	2,100	2,115
Other income	626	791
Total operating income	2,726	2,906
Total operating expenses	(1,448)	(1,428)
Operating profit before bank levies, regulatory fees, impairment and provisions	1,278	1,478
Bank levies and regulatory fees	(82)	(105)
Net credit impairment writeback	204	174
Writeback of provisions for liabilities and commitments	-	8
Operating profit	1,400	1,555
Associated undertakings	12	19
Profit on disposal	2	-
Profit from continuing operations before exceptional items	1,414	1,574
Total exceptional items	(167)	(268)
Profit before taxation from continuing operations	1,247	1,306
Income tax charge from continuing operations	(155)	(192)
Profit for the year	1,092	1,114

[1] IFRS 9 requires previously unrecognised interest income to be presented as a reversal of credit impairment/ recovery of amounts previously written-off, when a financial asset is no longer credit impaired or has been repaid in full (i.e. cured without financial loss). As the Group policy prior to the adoption of IFRS 9 was to recognise such income in net interest income, the 2017 figures have been re-presented for comparability purposes.

Business review - 2. Capital

Objectives*

The objectives of the Group's capital management policy are to at all times comply with regulatory capital requirements and to ensure that the Group has sufficient capital to cover the current and future risk inherent in its business and to support its future development. Detail on the management of capital and capital adequacy risk can be found in 'Risk management 3.5' on page 154.

Regulatory capital and capital ratios

	CRD IV transitional basis		CRD IV fully loaded basis	
	31 December 2018 € m	31 December 2017 € m	31 December 2018 € m	31 December 2017 € m
Equity	**13,858**	13,612	**13,858**	13,612
Less: Additional Tier 1 Securities	**(494)**	(494)	**(494)**	(494)
Proposed ordinary dividend	**(461)**	(326)	**(461)**	(326)
Regulatory adjustments:				
Intangible assets	**(682)**	(569)	**(682)**	(569)
Cash flow hedging reserves	**(285)**	(257)	**(285)**	(257)
IFRS 9 CET 1 transitional add-back	**298**	–	**–**	–
Investment securities reserves	**–**	(196)	**–**	–
Pension	**(183)**	(150)	**(183)**	(139)
Deferred tax	**(1,079)**	(829)	**(2,697)**	(2,764)
Expected loss deduction	**(21)**	–	**(21)**	–
Other	**(42)**	(23)	**(42)**	(18)
	(1,994)	(2,024)	**(3,910)**	(3,747)
Total common equity tier 1 capital	**10,909**	10,768	**8,993**	9,045
Additional tier 1 capital				
Instruments issued by subsidiaries that are given recognition in additional tier 1 capital	**235**	260	**316**	291
Total additional tier 1 capital	**235**	260	**316**	291
Total tier 1 capital	**11,144**	11,028	**9,309**	9,336
Tier 2 capital				
Instruments issued by subsidiaries that are given recognition in tier 2 capital	**415**	442	**531**	492
Expected loss deduction/Credit provisions	**–**	199	**–**	28
Other	**–**	3	**–**	–
Total tier 2 capital	**415**	644	**531**	520
Total capital	**11,559**	11,672	**9,840**	9,856
Risk weighted assets				
Credit risk	**46,209**	46,319	**46,052**	46,414
Market risk	**371**	360	**371**	360
Operational risk	**4,624**	4,248	**4,624**	4,248
Credit valuation adjustment	**392**	796	**392**	796
Other	**–**	5	**–**	5
Total risk weighted assets	**51,596**	51,728	**51,439**	51,823
	%	%	**%**	%
Common equity tier 1 ratio	**21.1**	20.8	**17.5**	17.5
Tier 1 ratio	**21.6**	21.3	**18.1**	18.0
Total capital ratio	**22.4**	22.6	**19.1**	19.0

*Forms an integral part of the audited financial statements

Business review - 2. Capital

Capital requirements

At 31 December 2018, the Group's CET1 requirement of 9.725%, comprised of a Pillar 1 requirement of 4.5%, Pillar 2 requirement ("P2R") of 3.15%, a Capital Conservation Buffer ("CCB") of 1.875% and a 1% UK Countercyclical Capital Buffer ("CCyB") requirement that equated to a Group requirement of 0.2%.

The Group's CET1 requirement increases to 11.55% in 2019 due to the fully phased CCB requirement rising to 2.5% (effective 1 January 2019), the implementation of the Irish CCyB of 1.0% of Irish exposures (equates to a 0.7% Group requirement) effective from 5 July 2019 and as the Group is designated as an Other Systemically Important Institution ("O-SII") a 0.5% buffer applies from 1 July 2019, (rising to 1.0% on 1 July 2020 and 1.5% on 1 July 2021).

The minimum requirement for the total capital ratio was 13.225% at 31 December 2018 and rises to 15.05% in 2019. This requirement excludes Pillar 2 guidance ("P2G") which is not publicly disclosed.

The transitional CET1 and total capital ratios at 31 December 2018 are 21.1% and 22.4% respectively. Based on these ratios, the Group has a very significant buffer over maximum distributable amount ("MDA") trigger levels.

IFRS 9 – 1 January 2018

The impact of implementing IFRS 9, includes effects on revenue reserves, risk weighted assets ("RWAs") and regulatory deductions. The Group applies the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds as per Regulation (EU) 2017/2395 of the European Parliament and of the Council. After applying these arrangements, the transitional CET1 ratio remained at 20.8% on 1 January 2018, with the fully loaded CET1 ratio reducing by 0.5% from 17.5% to 17.0%.

Capital ratios at 31 December 2018

Fully Loaded

The fully loaded CET1 ratio remained at 17.5% at 31 December 2018 (17.5% on 31 December 2017).

Fully loaded CET1 capital decreased by € 52 million to € 8,993 million at 31 December 2018. This was primarily driven by profit for the year of € 1,092 million offset by the impact of implementing IFRS 9 of € 267 million, a reduction in investment debt securities reserves of € 289 million, a proposed ordinary dividend of € 461 million and an increase in intangibles and other capital adjustments of € 127 million.

The fully loaded total capital ratio[1] increased to 19.1% at 31 December 2018 from 19.0% at 31 December 2017.

Under CRD IV, a portion of the capital reserves attributable to the Additional Tier 1 Securities and tier 2 capital instruments issued by Allied Irish Banks, p.l.c., which exceed the minimum own funds requirement, is not recognised for AIB Group plc consolidated regulatory capital purposes. The impact on the consolidated regulatory capital will reduce if the outstanding Additional Tier 1 Securities and tier 2 capital instruments issued by Allied Irish Banks, p.l.c. are redeemed. As at 31 December 2018, the restriction reduced qualifying fully loaded tier 1 capital by € 178 million and qualifying fully loaded tier 2 capital by € 254 million.

Transitional

The transitional CET1 ratio increased to 21.1% at 31 December 2018 from 20.8% at 31 December 2017, and is significantly in excess of the minimum capital requirement.

This increase is driven by the expiration of the transitional arrangements with regard to the deduction for unrealised gains on investment securities in 2018.

The transitional total capital ratio decreased to 22.4% at 31 December 2018 from 22.6% at 31 December 2017. This is driven by the removal of the Tier 2 add-back for standardised IBNR due to the implementation of IFRS 9 and the expiration of the transitional arrangement for minority interest.

As at 31 December 2018, the minority interest restriction reduced qualifying transitional tier 1 capital by € 260 million and qualifying transitional tier 2 capital by € 370 million.

Risk weighted assets

Fully Loaded

RWAs reduced by € 0.4 billion during the year to 31 December 2018. Credit risk reduced by € 0.4 billion, while credit valuation adjustment risk RWAs also reduced by € 0.4 billion. These decreases were partially offset by an increase in operational risk RWAs of € 0.4 billion (reflecting the increased levels of income in the annual calculation).

The movement in credit risk RWA consisted of new lending of € 7.7 billion which was offset by asset sales, redemptions and other balance sheet movements of € 7.5 billion. Improvements in credit grades reduced credit RWAs by € 0.6 billion.

Transitional

Transitional RWAs reduced by € 0.1 billion. € 0.4 billion is in relation to the movements in fully loaded RWA described above. This was offset by a c. € 0.3 billion increase resulting from the Group's application of the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds. RWA is driven by the exposure net of ECL for certain portfolios, and the amount of ECL recognised is lower after the application of the transitional arrangements.

[1]The restriction (in respect of minority interests) calculation may require adjustment pending the final communication of the EBA's position on the matter.

Targeted Review of Internal Models (TRIM)

The Group is engaging with the ECB as part of the ECB's Targeted Review of Internal Models (TRIM) on Irish Mortgages and other lending. The Group has yet to receive a final TRIM report on its IRB Irish Mortgages which would allow it to calculate the likely increase in RWAs for this portfolio.

Leverage ratio

The leverage ratio is defined as tier 1 capital divided by a non-risk adjusted measure of assets. Based on the full implementation of CRD IV, the leverage ratio, under the Delegated Act implemented in January 2015, was 10.1% at 31 December 2018 (10.3% at 31 December 2017).

	31 December	
	2018	2017
	€ m	€ m
Total exposure (transitional)	**94,086**	92,328
Total exposure (fully loaded)	**92,467**	90,593
Tier 1 capital (transitional basis)	**11,144**	11,028
Tier 1 capital (fully loaded)	**9,309**	9,336
Leverage ratio (transitional basis)	**11.8%**	11.9%
Leverage ratio (fully loaded)	**10.1%**	10.3%

Total leverage exposures (transitional) increased by € 1.8 billion in the year mainly driven by increases in net customer loans of € 0.9 billion and investment securities € 0.4 billion.

Dividends

The Board proposes to pay an ordinary dividend of € 0.17 per share totalling € 461 million from full year 2018 profits. This is subject to shareholder approval at the Annual General Meeting in April 2019.

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

In 2018, the Group has completed € 1.65 billion of its estimated c. € 4 billion issuance requirement. The Group continues to work towards its MREL target to ensure that there is sufficient loss absorption and recapitalisation capability. The Single Resolution Board ("SRB") set the Group's 2021 MREL target at 16.50%(1) of Total Liabilities and Own Funds which is aligned to the previously indicated target of 28.04% of RWAs. The Group continues to monitor the developments in the SRB's MREL Policy.

Finalisation of Basel III

The final text of the Basel III reforms were published in December 2017 which was less severe than initial industry expectations. The aim of the reforms is to enhance the reliability and comparability of risk weighted capital ratios. Due to the Group's high RWA density it is likely to be less severely impacted by RWA floors. The Group will continue to assess the impact of the reforms as and when they are applied to European law and regulations.

The Group is actively monitoring the advancement in regulatory frameworks and assessing potential capital impacts to ensure that the Group maintains a strong capital position.

(1)Subject to ongoing review by the SRB.

Business review - 2. Capital

Ratings

AIB Group plc

AIB Group plc has achieved investment grade with all three rating agencies, Moody's, Fitch and Standard & Poor's (S&P).

Moody's initially assigned AIB Group plc a rating of Ba2 with a positive outlook in March 2018. In July 2018, they upgraded AIB Group plc by two notches to Baa3 (Investment Grade), remaining on positive outlook reflecting MREL execution ability and significant improvement in asset quality.

S&P initially assigned AIB Group plc a rating of BB+ with a positive outlook in March 2018 and reaffirmed in July 2018. In December 2018, post Banking Industry Country Risk Assessment (BIRCA) review, S&P upgraded AIB Group plc one notch to BBB- (Investment grade).

Fitch initially assigned AIB Group plc a rating of BBB- (Investment grade) with a positive outlook in March 2018. In November 2018, Fitch reaffirmed the rating.

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

Allied Irish Banks, p.l.c.

Moody's upgraded its rating by two notches to A3 with positive outlook. This upgrade is driven by the significant improvement in asset quality in 2017 and 2018.

S&P upgraded its rating in July 2018 to BBB with positive outlook and in December 2018 S&P upgraded one notch to BBB+ (Investment grade) with a stable outlook.

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

	31 December 2017		
Long-term ratings	Moody's	S&P	Fitch
Long-term	Baa2	BBB-	BBB-
Outlook	Stable	Positive	Positive
Investment grade	✓	✓	✓

Risk management

Risk management – 1. Principal risks and uncertainties

Introduction

The Group is exposed to a number of material risks which have been identified through the Material Risk Assessment process carried out by the Group. The Group has implemented comprehensive risk management strategies in seeking to manage these risks. Further details on the overall governance and organisational framework through which the Group manages and seeks to manage and mitigate risk, are provided in 'Risk management – 2. Framework'. More detailed summary disclosures in respect of the Group's material risks are included in 'Risk management – 3. Individual risk types'.

The principal risks and uncertainties facing the Group fall under the following broad categories:
– Macroeconomic and geopolitical risks;
– Regulatory and legal risks; and
– Risks relating to business operations, governance and internal control systems.

Page 19 of this Report provides a summary of the linkages between the 'Principal risks and uncertainties' (set out below) to the Group's four Strategic Pillars and to its Material risks.

This list of principal risks and uncertainties should not be considered as exhaustive, and other factors not yet identified or not currently considered material may adversely affect the Group. While the Group invests substantial time and effort in its risk management strategies and techniques, there is a risk that these may fail to adequately mitigate the risks in some circumstances, particularly if confronted with risks that were not identified or anticipated.

Macroeconomic and geopolitical risk

The Group's business may be adversely affected by any deterioration in the Irish or UK economy or in global or relevant regional economic conditions.
The Group's business activities are almost entirely based in the Irish and UK markets. A deterioration in the performance of the Irish economy or in the European Union (EU), the United Kingdom (UK) and/or other relevant economies could adversely affect the Group's overall financial condition and performance. Such a deterioration could result in reductions in business activity, lower demand for the Group's products and services, reduced availability of credit, increased funding costs, higher expected credit losses and lower capital.

Geopolitical developments could have repercussions that could have a negative impact on global economic growth, disrupt markets, and adversely affect the Group.
Geopolitical developments in recent years have given rise to significant market volatility and, in certain instances, have had an adverse impact on economic growth and performance globally.

Expectations regarding geopolitical events and their impact on the global economy remain uncertain in both the short and medium term.

The UK's exit from the EU could lead to a deterioration in market and economic conditions in the UK and Ireland, which could adversely affect the Group's business, financial condition, results of operations and prospects.
Although the overall impact of the UK's withdrawal from the EU remains uncertain, and may remain uncertain for some time, it is expected to have a negative effect on Irish and UK GDP growth over the medium term, with the UK's future trading relationship with the EU post-Brexit being the key consideration in determining the extent of such deterioration.

The legal and regulatory position of the Group's operations in the UK may be impacted from changes in legal and regulatory rules as a result of the UK departure from the EU. Depending on the nature of such changes the UK exiting the EU could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Without a legislative change in the UK the default position is that it will leave the EU on 29 March 2019 with neither a deal nor a transitional arrangement. Even if a deal is ultimately secured, uncertainty may persist or worsen throughout the process of negotiation to determine the future terms of the UK's relationship with the EU.

The provisions that the Group holds at the balance sheet date with regards to Brexit represent the probability weighted outcome of three scenarios used in the ECL calculation, which includes the possibility of a no-deal Brexit. However, there is a risk that should the credit environment deteriorate beyond those assumptions used in the ECL calculation (for instance if Brexit was to result in a deep decline in the UK or Irish economies) that the level of provisions would increase significantly.

The Group's stress testing and integrated planning frameworks evaluate its risk profile under a range of macroeconomic scenarios including an orderly Brexit and a 'no deal' Brexit scenario (i.e. a hard Brexit). The most severe systemic risks, together with their associated risk mitigants are evaluated as part of the Internal Capital Adequacy Assessment Process ("ICAAP").

The Group has established a Brexit Steering committee to co-ordinate the preparedness of the Group and has commenced a number of actions within its overall Brexit contingency plan. The Brexit Steering committee will continue to monitor the situation and take action in response to Brexit related risks as they evolve. The Brexit Steering committee reports regularly to ExCo.

The Group faces risks associated with the level of, and changes in, interest rates, as well as certain other market risks.
Market risk such as interest rate risk, credit spread risk (including sovereign credit spread risk), foreign exchange rate risk, equity risk and inflation risk arise in the normal course of the Group's banking business. Further details on market risk are provided in section 3.6 of this report.

The Group's earnings are exposed to interest rate risk, including basis risk, i.e. an imperfect correlation in the adjustment of the rates earned and paid on different products with otherwise similar repricing characteristics. The persistence of exceptionally low interest rates for an extended period can adversely impact the Group's earnings through a compression of net interest margin. Widening credit spreads can adversely impact the value of the Group's hold-to-collect-and-sell bond positions.

Trading book risks predominantly result from supporting client businesses with small residual discretionary positions remaining. Credit valuation adjustments (CVA) and funding valuation adjustments (FVA) to derivative valuations arising from customer activity potentially have the largest trading book derived impact on earnings.

The Group's market risk management operates under a Board approved Risk Appetite framework and policy. The Group's Asset and Liability Committee (ALCo) reviews the Group's market risk positions and makes decisions on the management of the Group's assets and liabilities within the Group Risk Appetite. The Group's Treasury function actively manages market risk – proposing and executing market risk strategy and managing market risk on a day-to-day basis. The Group's Capital and Liquidity function is responsible for making strategic asset and liability management recommendations to ALCo. The Group's Financial Risk function is responsible for second line oversight of market risk, defining market risk appetite, setting the market risk framework and policy, and for monitoring adherence to this framework.

The Group's Internal Audit function provides third line assurance on market risk.

Regulatory and legal risks

The Bank Recovery and Resolution Directive ("BRRD") and the Single Resolution Mechanism ("SRM") Regulation provide for resolution tools that may have a material adverse effect on the Group.
While the Single Resolution Board has indicated its preferred resolution strategy for the Group is single point of entry bail-in through AIB Group plc, the BRRD is designed to provide relevant authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing credit institution so as to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of a credit institution's failure on the economy and financial system. Under the BRRD the resolution authority has extensive powers including the power to write down certain liabilities with certain resolution tools in circumstances where the credit institution is failing or is likely to fail.

The Group is required to comply with a wide range of laws and regulations. If the Group fails to comply with these laws and regulations, it could become subject to regulatory actions, including monetary damages, fines or other penalties, regulatory restrictions, civil litigation, criminal prosecution and/or reputational damage.
The legal and regulatory landscape in which the Group operates is constantly evolving, and the burden of compliance with laws and regulations is increasing. As new laws or regulatory schemes are introduced, the Group may be required to invest significant resources in order to comply with the new legislation or regulations.

The ECB's publication of guidance to banks on non-performing loans in March 2017 and NPL addendum in March 2018 set out the expectations of the SSM with respect to NPL management and minimum provision levels. The ECB's objective in issuing the guidance is to drive strategic and operational focus on the reduction of non-performing loans, together with further harmonisation and common definitions of non-performing loans and forbearance measures. Non-compliance with the guidance may trigger supervisory measures that are not further specified in the guidance.

Thus, the Group is required to design and implement policies that ensure compliance with legislation and regulation within the jurisdictions in which the Group operates.

The Group faces risks and challenges due to interest rate benchmark reform, including preparation for the discontinuation of EONIA and EURIBOR beginning January 2020.

The Group adopts a systematic approach to the identification, assessment, transposition, control and monitoring of new or changing laws and regulatory requirements. Once implemented, second line assurance tests the adequacy of, and adherence to, the control environment on a risk based approach.

The Group is subject to anti-money laundering and terrorist financing, anti-corruption and sanctions regulations, and if it fails to comply with these regulations, it may face administrative sanctions, criminal penalties and/or reputational damage.
Monitoring compliance with anti-money laundering ("AML"), counter-terrorist financing ("CTF") and anti-corruption and compliance sanctions rules are complex which requires significant technical capabilities. In recent years, enforcement of these laws and regulations by regulators against financial institutions has become more intrusive, resulting in several landmark fines against financial institutions.

The 4th EU Anti-Money Laundering Directive ("MLD4") emphasises a ''risk-based approach'' to AML and CTF and imposes obligations on Irish incorporated bodies to take measures to compile information on beneficial ownership. In addition to this, the AML/CTF regulatory landscape is constantly changing, with a series of proposed further amendments to MLD4 arising from events such as terrorist attacks in Europe and the leaking of papers containing highly sensitive information, as well as from a desire to align European AML/CTF laws with recommendations from the Financial Action Task Force.

The combined impact of these changes is the 5th EU Anti-Money Laundering Directive ("MLD5"), the final text of which was published on 19 June 2018. Member States have until January 2020 to implement this into domestic law (with certain later transposition dates for some aspects of MLD5). This is expected to come into force in each Member State by mid-2019.

The Group may be adversely affected by the budgetary and taxation policies of the Irish, UK and other governments through changes in taxation law and policy.
Taxation changes may directly impact the financial performance of the Group through measures such as the bank levy introduced by the Irish Government in 2014 and the restrictions on use of tax losses introduced in the UK in 2015 and 2016.

Risk management – 1. Principal risks and uncertainties

Such taxation changes could have a material adverse effect on the Group's financial position.

In addition, changes in taxation policy and other tax measures adopted by the Irish or UK Governments, or by international organisations such as the European Union, may have an adverse impact on economic activity generally, or on borrowers' ability to repay their loans and, as a result, on the Group's business.

The Group assesses this risk by undertaking sensitivity analysis in its financial planning process, and monitoring financial performance against the Group's financial plan on a regular basis.

Irish legislation and regulations in relation to mortgages, as well as judicial procedures for the enforcement of mortgages, custom, practice and interpretation of such legislation, regulations and procedures, may result in higher levels of default by the Group's customers, delays in the Group's recoveries in its mortgage portfolio, and increased impairments.

Regulations such as the Personal Insolvency Act and the Central Bank's Code of Conduct on Mortgage Arrears ("CCMA") may result in changes in customers' attitudes, where they may be more likely to default even when they have sufficient resources to continue making payments on their mortgages. This could result in delays in the Group's recoveries in respect of its mortgage portfolio and increased impairments, which could have a material adverse effect on its business, results of operations, financial condition and prospects.

Furthermore, in instances where the Group seeks to enforce security on commercial or residential property (in particular over Private Dwelling House ("PDH")), the Group may encounter significant delays arising from judicial procedures, which often entail significant legal and other costs. Custom, practice and interpretation of Irish legislation, regulations and procedures may also contribute to delays or restrictions on the enforcement of security. The courts or legislature in Ireland may have particular regard to the interests and circumstances of borrowers relating to the enforcement of security or sale of their loans which is different to the custom and practice in other jurisdictions. As a result of these factors, enforcement of security or recovery of delinquent loans in Ireland may be more difficult, take longer and involve higher costs for lenders as compared to other jurisdictions.

The Government may also seek to influence how credit institutions set interest rates on mortgages, amend the Personal Insolvency Act or enact other legislation that affects the rights of lenders in other ways which could have a material adverse effect on the Group's (including the issuer's) business, financial condition and prospects.

In common with other residential mortgage lenders, the Group faces increased scrutiny and focus by the Government, the Oireachtas and customer or consumer protection regulators, such as the Central Bank and the Competition and Consumer Protection Commission ("CCPC") (for example, CCPC report on Options for Ireland's Mortgage Market, June 2017) on its loan book, in particular its residential mortgage book, with respect to such matters as the interest rates it charges on loans. This could result in increased regulation of the Group's loan book which may impact the Group's level of lending, interest income and net interest margin and/or increased operational costs.

The Group is subject to conduct risk, including changes in laws, regulations and practices of relevant authorities and the risk that its practices may be challenged under current regulations or standards, and if it is deemed to have breached any of these laws or regulations, it could suffer reputational damage or become subject to challenges by customers or competitors, or sanctions, fines or other actions.

The Group is exposed to conduct risk, which the Group defines as the risk that inappropriate actions or inactions cause poor or unfair customer outcomes or market instability. Certain aspects of the Group's business may be determined by regulators in various jurisdictions or by courts not to have been conducted in accordance with applicable local or, potentially, overseas laws and regulations, or in a fair and reasonable manner as determined by the local ombudsman. If the Group fails to comply with any relevant laws or regulations, it may suffer reputational damage and may be subject to challenges by customers or competitors, or sanctions, fines or other actions imposed by regulatory authorities. The Group's practices may also be challenged under current regulations and standards. There is also a risk that pressures from the media, consumer groups and/or politicians could influence the agenda of the Central Bank and the Financial Conduct Authority ("FCA").

In addition, the Group may be subject to allegations of mis-selling of financial products, including as a result of having sales practices and/or reward structures in place that are subsequently determined to have been inappropriate. This may result in adverse regulatory action (including significant fines) or requirements to amend sales processes, withdraw products or provide restitution to affected customers, any or all of which could result in the incurrence of significant costs, may require provisions to be recorded in the financial statements, and could adversely impact future revenues from affected products.

The Group has a Conduct Risk Framework, aligned with the Group Strategy, which is embedded in the organisation and provides oversight of conduct risks at Leadership Team and Board level by way of two key fora:

- The Group Conduct Committee: provides the Leadership Team oversight of conduct through promoting and supporting a 'customer first' culture, and also oversees the key conduct Risk Appetite metrics for Complaints Management and Product Reviews.
- The Group Product and Proposition Committee: focus is exclusively in product oversight and management, including overseeing a rolling programme of product reviews.

Risks relating to business operations governance and internal control systems

The Group is subject to credit risks in respect of customers and counterparties, including risks arising due to concentration of exposures across its loan book, and any failure to manage these risks effectively could have a material adverse effect on its business, financial condition, results of operations and prospects.

Risks arising from changes in credit quality and the recoverability of loans and other amounts due from customers and counterparties are inherent in a wide range of the Group's businesses. In addition to the credit exposures arising from loans to individuals, Small and Medium Enterprises ("SMEs") and corporates, the Group also has exposure to credit risk arising from loans to financial institutions, its trading portfolio, investment debt securities, derivatives, and from off-balance sheet guarantees and commitments. Due to the nature of its business, the Group has extensive exposure to the Irish property market, both because of its mortgage lending activities and its property and construction loan book.

Accordingly, any development that adversely affects the Irish property market will have a disproportionate impact on the Group. If the Group is unable to manage its credit risk effectively, its business, results of operations, financial condition and prospects could be materially adversely affected. The Group's monitoring of its loan portfolio is dependent on the effectiveness, and efficient operation of its processes, including credit grading and scoring systems, and there is a risk that these systems and processes may not be effective in evaluating credit quality.

The Group's credit risk management operates under a Board approved framework and suite of policies. The Group's Credit Committee ("GCC") monitors credit risk. The Group's Credit Risk function provides second line assurance, defining the credit risk framework and monitoring compliance with this framework.

The Group Internal Audit function provides third line assurance on credit risk.

The Group's strategy may not be optimal and/or not successfully implemented.

The Group has identified several strategic objectives for its business. There can be no assurance that the Group's strategy is the optimal strategy for delivering returns to shareholders.

The Group may not be successful in implementing its strategy in a cost effective manner. The Group's business, results of operations, financial condition and prospects could be materially adversely affected if any or all of these strategy related risks were to materialise.

The Group mitigates this risk by monitoring its performance against its strategic objectives on a regular basis, by periodically reviewing the competitive landscape and by benchmarking against peers.

If a poor or inappropriate culture develops across the Group's business, this may adversely impact its performance and impede the achievement of its strategic goals.

The Group must continuously develop and promote an appropriate culture that drives and influences the activities of its business and staff and its dealings with customers in relation to managing and taking risks and ensuring that risk considerations continue to play a key role in business decisions. It is senior management's responsibility to ensure that the appropriate culture is embedded throughout the organisation. As was demonstrated by many banks during the financial crisis, if an inappropriate culture develops, then a strategy or course of action could be adopted that results in poor customer outcomes. If the Group is unable to maintain an appropriate culture, this could have a negative impact on the Group's business, result of operations, financial condition and prospects.

The Group promotes, amongst all staff, the principle of 'doing the right thing'. It monitors the evolving culture through a staff engagement programme, iConnect, and through its performance management system. The performance management system facilitates quality discussions with staff on 'what' and 'how' they will achieve their objectives. As a result, initiatives continue to be undertaken at team level to improve the way we do things and from which we continuously identify opportunities to evolve our culture at Group level as a competitive advantage. As further support, the Group has implemented a Code of Conduct supported by a range of employee policies, including 'Conflicts of Interest' and 'Speak up'.

Damage to the Group's brand or reputation could adversely affect its relationships with customers, staff, shareholders and regulators.

Management aims to ensure that the Group's brands, which include the AIB and EBS brands in Ireland, the AIB GB brand in Great Britain and the First Trust Bank brand in Northern Ireland, are at the heart of its customers' financial lives by being useful, informative, and easy to use, and by providing an exceptional customer experience. The Group's relationships with its stakeholders, including its customers, staff and regulators, could be adversely affected by any circumstance that cause real or perceived damage to its brands or reputation. In particular, any regulatory investigations, inquiries, litigation, actual or perceived misconduct or poor market practice in relation to customer related issues could damage the Group's brands and/or reputation. Any damage to the Group's brands and/or reputation could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The Group monitors the 'health' of its brands and reputation by regularly seeking feedback from its customers, shareholders and other stakeholders, and by tracking metrics in relation to these, e.g. the Net Promoter Score ("NPS") gauges the loyalty of customer relationships. The Group maintains open communication with all regulatory bodies.

Risk management – 1. Principal risks and uncertainties

Constraints on the Group's access to funding, including a loss of confidence by depositors or curtailed access to wholesale funding markets, may result in the Group being required to seek alternative sources of funding.
Conditions may arise which would constrain funding or liquidity opportunities for the Group over the longer term. Currently, the Group funds its lending activities primarily from customer accounts. Consequently, a loss of confidence by depositors in the Group, the Irish banking industry or the Irish economy, could ultimately lead to a reduction in the availability and/or an increase in the cost of funding or liquidity resources. The Group could also be negatively affected by an actual or perceived deterioration in the soundness of other financial institutions and counterparties.

The withdrawal of Central Bank funding through Quantitative Easing ("QE") could reduce the amount of overall liquidity in the banking system. This in turn could make the cost of funding more expensive and negatively affect the Group's funding position.

The Group's funding and liquidity risk management operates under a Board approved Risk Appetite framework and policy. The Group's ALCo reviews the Group's funding and liquidity risk position and makes decisions on the management of the Group's assets and liabilities. The Group's Treasury and Capital and Liquidity functions actively manage funding and liquidity risk, proposing and executing funding strategy and managing liquidity risk on a day-to-day basis. The adequacy of the Group's funding and liquidity is evaluated under both forecast and stress conditions as part of the Internal Liquidity Adequacy Assessment Process ("ILAAP"). The ILAAP process includes the identification and evaluation of potential liquidity mitigants.

The Group's Financial Risk function provides second line independent risk oversight on funding and liquidity risk, setting the risk appetite, defining the funding and liquidity control framework, and monitoring adherence to this framework. The Group's Internal Audit function provides third line assurance on funding and liquidity risk.

The Group's risk management systems, processes, guidelines and policies may prove inadequate for the risks faced by its business, and any failure to properly assess or manage the risks which it faces could cause harm to the Group's business.
The Group is exposed to a number of material risks that it manages through its Risk Management Framework. Although the Group invests substantially in its risk management strategies and techniques, there is a risk that these could fail to fully mitigate these risks in some circumstances.

Furthermore, Senior Management are required to make complex judgements, and there is a risk that decisions made by Senior Management may not be appropriate or yield the results expected, or that Senior Management may be unable to recognise emerging risks in order to take appropriate action in a timely manner.

The Group mitigates this risk by regularly reviewing the design and operating effectiveness of its risk management policies and methodologies. These reviews are supplemented in some instances by external review and validation.

The Group uses models across many, though not all, of its activities, and if these models prove to be inaccurate, its management of risk may be ineffective or compromised, and/or the value of its financial assets and liabilities may be overestimated or underestimated.
The Group uses models across many, though not all, of its activities, including, but not limited to, capital management, credit grading, provisioning, valuations, liquidity, pricing, and stress testing. The Group also uses financial models to determine the fair value of derivative financial instruments, financial instruments at fair value through profit or loss, certain hedged financial assets and financial liabilities, and financial assets. Since the Group uses risk measurement models which take account of historical observations, there is a risk that it may underestimate or overestimate exposure to various risks to the extent that future market conditions deviate from historical experience.

The Group's credit models are subject to ongoing regulatory reviews and inspections, which may give rise to additional capital requirements, a replacement of internal ratings based ("IRB") models, or a reputational risk for the Group.

If the Group's models are not effective in estimating its exposure to various risks or determining the fair value of its financial assets and liabilities, or if its models prove to be inaccurate, its business, financial condition, results of operations and prospects could be materially adversely affected.

The Group mitigates this risk through the review and monitoring of the design and operating effectiveness of the Group Model Risk Framework and supporting policies, including model validation.

The Group requires approval from the ECB in order to implement new IRB models or to change existing approved IRB models. It is also subject to reviews and inspections from the ECB and other regulatory bodies in relation to the models, such as the Targeted Review of Internal Models ("TRIM"), a process being undertaken by the ECB to increase harmonisation in the approaches to internal models used by banks across the EU.

Despite continued progress made throughout 2018, the Group has a significant level of criticised loans and non-performing exposures on its statement of financial position, and there can be no assurance that it will continue to be successful in reducing the level of these loans. The management of criticised and non-performing loans also gives rise to risks, including vulnerability to challenges by customers and/or third parties, re-default, changes in the regulatory regime, further losses, costs, and the diversion of management attention and other resources from the Group's business.
Despite significant progress made throughout 2018 to reduce the level of criticised and non-performing loans, the Group has a significant level of criticised and non-performing loans, which are defined as loans requiring additional management attention over and above that normally required for the loan type.

Criticised loans are accounts of lower quality and include "criticised watch" and "criticised recovery". Non-performing loans are accounts which have defaulted. The Group has been proactive in managing its criticised and non-performing loans, in particular through restructuring activities and the Mortgage Arrears Resolution Process ("MARP") that was introduced in order to comply with the Central Bank's Code of Conduct on Mortgage Arrears ("CCMA"). The Group has made significant reductions to the level of criticised and non-performing loans, but, there can be no assurance that the Group will continue to be successful in reducing the level of its criticised and non-performing loans.

The Group has extensive credit policies and strategies, implementation guidelines and monitoring structures in place to manage criticised loans and non-performing exposures.

The Group regularly reviews these credit policies, as well as the performance of criticised loans and non-performing exposures, against financial plans.

The Group faces operational risks – including cyber, outsourcing, fraud, product process and systems risks.
Operational risk is the risk arising from inadequate or failed internal processes, people and systems, or from external events. This includes legal risk, which is the potential for loss arising from the uncertainty of legal proceedings potential legal proceedings and risk of internal and external fraud incidents, but excludes strategic and reputational risk.

The Group consider the following to be the current key operational risks:

The Group's business continues to be subject to significant change, as a result of both changes in the way in which the Group interacts with customers and the implementation of mandatory changes as a result of new or changed regulatory requirements. Careful monitoring of the scope and scale of ongoing change across the Group is required to ensure that ongoing change does not impact the Group's operational risk profile.

Under the terms of the recapitalisation of the Group by the Irish Government, the Group is required to comply with certain executive pay and compensation arrangements, including a cap on salaries as well as a ban on bonuses and similar incentive-based compensation applicable to employees of Irish banks who have received financial support from the Irish Government. As a result of these restrictions, and in the increasingly competitive markets in Ireland and the UK, and associated challenges in the market presented by Brexit, the Group may not be able to attract, retain and remunerate highly skilled and qualified personnel.

The Group's business is dependent on the accurate and efficient processing and reporting of a high volume of complex transactions across numerous and diverse products and services. This is enabled by the high-performing information technology ("IT") and communications infrastructure on which the Group relies. Weaknesses or issues which may result in these systems or processes not operating as expected could have an adverse effect on the Group's results and on its ability to deliver appropriate customer outcomes or to achieve its organisational objectives. This could include issues such as technical failures, human error, unauthorised access, cybercrime, natural hazards or disasters, or similarly disruptive events.

The Group continues to invest significantly in its technology and cyber defences. Its IT transformation programmes are aimed at delivering resilience, agility and a simple, efficient operating model focused on improving the customer experience. To respond to the cyber related risks, and counteract the increased frequency, sophistication and complexity of cyber attacks, the Group's Cyber Strategy and Framework is driven by an informed view of the threat landscape, a clearly articulated risk appetite, knowledge of the regulatory environment and placing the customer at the forefront of our thinking. The Group continues to improve its capabilities to defend, protect and respond, through a programme of ongoing enhancements to risk mitigation and management processes and controls.

The Group is dependent on the performance of third-party service providers, and if these providers do not perform their services or fail to provide services to the Group or renew their licences with the Group, the Group's business could be disrupted and it could incur unforeseen costs.

The Group seeks to ensure that procedures are in place to effectively manage the relevant data protection obligations of its employees and any third-party service providers, and also continues to enhance security measures to help prevent cybercrime. Notwithstanding such efforts, the Group is exposed to the risk that personal customer data could be lost, disclosed or stolen, as a result of human error or otherwise.

The Group maintains insurance policies to cover a number of risk events. These include financial policies (comprehensive crime/computer crime; professional indemnity/civil liability; employment practices liability; and directors' and officers' liability) and a suite of general insurance policies to cover such matters as property and business interruption, terrorism, combined liability and personal accident. There can be no assurance, however, that the level of insurance the Group maintains is appropriate for the risks to its business or adequate to cover all potential claims.

The management of the Group's operational risks is central to the delivery of its strategic objectives. To support the management of operational risks, the Group has a defined Operational Risk Framework and suite of Policies', which sets out the principles, roles and responsibilities and governance arrangements for the management of Operational Risk across the Group. The operational risk strategy of the Group is to adopt sound practices in the identification, evaluation, mitigation, monitoring, assurance and reporting of operational risks to ensure that they are within the operational risk appetite of the Group. The Group mitigates its operational risks by having detailed risk assessment and internal control requirements in relation to the management of its key people, process and systems risk.

Risk management – 1. Principal risks and uncertainties

The Group faces the risk of being unable to recruit and retain appropriately skilled and experienced staff.
People risk is the risk associated with being unable to recruit and retain appropriately skilled and experienced staff to ensure the stability of the business in the long-term. In particular the Group is restricted in the remuneration it can offer to senior management which creates a risk that the Group may not be able to attract and retain the right skills and experience within key senior management roles.
The Group's performance is heavily dependent on the talents and efforts of highly skilled individuals, and the continued ability of the Group to compete effectively and implement its strategy depends on its ability to attract new employees and retain and motivate existing employees. Competition from within the financial services industry, including from other financial institutions, as well as from businesses outside the financial services industry for key employees is intensifying.

The Group may have insufficient capital to meet increased minimum regulatory requirements.
The Group is subject to minimum capital requirements as set out in CRD IV and implemented under the SSM. As a result of these requirements, banks in the EU have been and could continue to be required to increase the quantity and the quality of their regulatory capital. Given this regulatory context, and the levels of uncertainty in the current economic environment, there is a possibility that the economic outturn over the Group's capital planning period may be materially worse than expected and/or that losses on the Group's credit portfolio may be above forecast levels. Were such losses to be significantly greater than currently forecast, or capital requirements for other material risks increase significantly, there is a risk that the Group's capital position could be eroded to the extent that it would have insufficient capital to meet its regulatory requirements. Due to the Group continuing to be majority owned by the Irish State, it may have less opportunity to enhance its capital base, in the event of a significant market downturn.

This risk is mitigated by evaluating the adequacy of the Group's capital under both forecast and stress conditions as part of the ICAAP. The Group ensures that, as part of its capital planning, it maintains an appropriate buffer over the minimum regulatory and internal capital requirements. The ICAAP process also includes the identification and evaluation of potential capital mitigants should this buffer come under threat.

The Group faces the risk that the funding position of its defined benefit pension schemes will deteriorate, requiring it to make additional contributions, adversely affecting its capital position.
The Group maintains a number of defined benefit pension schemes for certain current and former employees. These defined benefit schemes were closed to future accrual from 31 December 2013. In relation to these schemes, the Group faces the risk that the funding position of the schemes will deteriorate over the longer term. This may require the Group to make additional contributions, above what is already planned, to cover its pension obligations towards current and former employees. Furthermore, pension deficits as reported are a deduction from capital under CRD IV. Accordingly, any increase in the Group's pension deficit may adversely affect its capital position. There could also be a negative impact on industrial relations if the funding level of the schemes were to deteriorate.

The Group received approval from the Pensions Authority in 2013 in relation to a funding plan up to January 2018 with regard to the regulatory minimum funding standard (the MFS) requirements of the AIB Irish Pension Scheme. The final payment required under the funding plan was made in January 2018. The most recent actuarial valuation of the Irish Scheme was carried out at 30 June 2018 and reported the scheme to be in surplus and requiring no deficit funding at this time.

It has been agreed with the Trustee of the UK Scheme to extend the deadline for completing the valuation at 31 December 2017 to 2019. The Group is currently considering funding options for the UK Scheme with the Trustee.

Pension risk is monitored and controlled in line with the requirements of the Group's Pension Risk Framework.
The extent of the IAS 19 surplus or deficit is monitored on a monthly basis. In addition, the potential change in this value over a one year time horizon is assessed on a monthly basis and is reported versus a Group RAS watch trigger.

Deferred tax assets that are recognised by the Group may be affected by changes in tax legislation, the interpretation of such legislation, or relevant practices. The Group is also required under capital adequacy rules to deduct from its CET1 the value of most of its deferred tax assets, which may result in it being required to hold more capital.
At 31 December 2018, the Group had € 2.7 billion of deferred tax assets on its statement of financial position, substantially all of which related to unused tax losses.

Changes in tax legislation or the interpretation of such legislation, regulatory requirements, accounting standards or practices of relevant authority, could adversely affect the basis for recognition of the value of these losses. In the United Kingdom, for instance, legislation was introduced in 2015 and 2016 to restrict the proportion of a bank's taxable profit that can be offset by certain carried forward losses first to 50 per cent, and then to 25 per cent. This legislation has adversely affected the value of the Group's deferred tax assets in relation to its UK operations.

The capital adequacy rules under CRD IV also require the Group, among other things, to deduct from its CET1 the value of most of its deferred tax assets, including all deferred tax assets arising from unused tax losses. This deduction from CET1 commenced in 2015 and is to be phased in evenly over 10 years, although this phasing may be subject to change.

The Group monitors this risk by regularly reviewing the basis for recognition of its deferred tax assets. In addition, the Group monitors and sets limits on its fully loaded capital position, which excludes deferred tax assets, from the Group's available capital resource.

Risk management – 2. Framework

Introduction

The following sections outline the Risk Management Framework in place throughout 2018. In the final quarter of 2018, the Leadership Team was replaced with the Executive Committee ("ExCO"). References in the text to the role of the Leadership Team should be interpreted accordingly. A number of other changes to the Group's risk governance framework were implemented subsequent to the reporting date as part of the Group's transition to a new operating model and internal governance structure. A summary of the key changes is presented in Section 2.5.

The principal risks and uncertainties to which the Group is exposed are set out in the previous section. The governance and organisation framework through which the Group manages and seeks to mitigate these risks is described below.

2.1 Risk management framework

The Group takes a variety of risks in undertaking its business activities. Risk is defined as any event that could damage the core earnings capacity of the Group, increase cash flow volatility, reduce capital, threaten its business reputation or viability, and/or breach its regulatory or legal obligations. The Group has adopted an enterprise risk management approach to identifying, assessing and managing risks. To support this approach, a number of frameworks and policies approved by the Board (or Board delegation) are in place which set out the key principles, roles and responsibilities and governance arrangements through which the Group's material risks are managed and mitigated. The core aspects of the Group's risk management approach are described below.

2.2 Risk identification and assessment

The Group uses a variety of approaches and methodologies to identify and assess its principal risks and uncertainties. A Material Risk Assessment ("MRA") is undertaken on at least an annual basis. The Group performs a top-down MRA process to ensure all material risks to which AIB is exposed are identified. Other assessments of risk are undertaken, as required, by business areas, focusing on the nature of the risk, the adequacy of the internal control environment, and whether additional management action is required. Periodic risk assessments are also undertaken in response to specific internal or external events. Reports on the Group's risk profile and emerging risks are presented at each Executive Risk Committee ("ERC") and Board Risk Committee ("BRC") meeting.

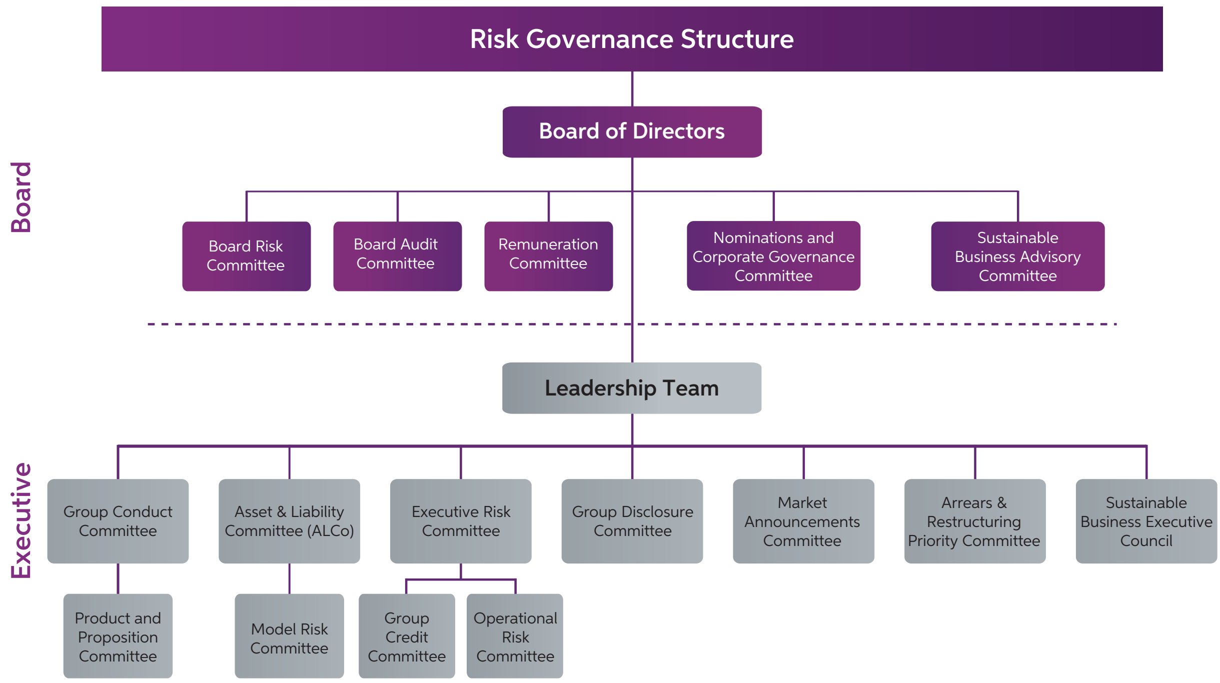
2.3 Risk appetite

The Group's risk appetite is defined as the amount and type of risk that the Group is willing to accept or tolerate in order to deliver on its strategic and business objectives. The Group Risk Appetite Statement ("RAS") is a blend of qualitative statements and quantitative limits and triggers linked to the Group's strategic objectives.

The Group RAS is reviewed and approved by the Board at least annually and more often if required, in advance of the business and financial planning process. The Group RAS is cascaded down to the Group authorised bank subsidiaries and significant business areas to ensure it is embedded throughout the Group.

While the Board approves the Group RAS, the Leadership Team is accountable for ensuring that risks remain within appetite.

The Group's risk profile is measured against its risk appetite and adherence to the Group RAS is reported on a monthly basis to the ERC and BRC. Should any breaches of Group RAS limits arise, these, together with associated management action plans, are escalated to the Board for review, and also reported to the Central Bank of Ireland ("CBI")/Joint Supervisory Team ("JST"), in line with the provisions of the CBI revised Corporate Governance Code.



Risk management – 2. Framework

2.3 Risk appetite *(continued)*

The Group RAS is built on the following overarching qualitative statements:

1. We have low appetite for income volatility and target steady, sustainable earnings to enable appropriate regular dividend payments;
2. We do not have an appetite for large market risk positions;
3. We accept the concentration risk arising from our focus on markets in Ireland and the UK. Within these markets we seek to avoid excessive concentrations to sectors or single names and test repayment capacity in stress conditions;
4. We seek to attract and retain skilled staff and reward behaviour consistent with our brand values and code of conduct;
5. We offer our customers transparent, consistent and fair products and services, and always seek to deliver fair customer outcomes;
6. We seek to maintain the highest level of availability of key services for our customers;
7. We seek to comply with all relevant laws and regulations; our business is underpinned by a strong control framework;
8. We hold capital in excess of regulatory requirements whilst achieving returns on capital in line with stakeholder and market expectations; and
9. We seek resilient, diversified funding, relying significantly on retail deposits.

Risk appetite is embedded within the Group in a number of ways, including alignment with risk frameworks and policies, segment and subsidiary risk appetite statements, delegated authorities and limits, and new product approval processes. Risk appetite is a key input into the decision making process within the Group. Extensive communication and the cascade of key aspects of the Group's risk appetite framework, as relevant, serve to ensure that risk appetite is aligned to strategy and informs day-to-day decision making.

2.4 Risk governance

2.4.1 Risk management organisation

The Board has ultimate responsibility for the governance of all risk taking activity in the Group. The Group has adopted a 'three lines of defence' framework in the delineation of accountabilities for risk governance. Under this model, the primary responsibility for risk management lies with business line management.
The Risk Management function together with the Compliance function, headed by the Group Chief Risk Officer ("CRO") provide the second line of defence, providing independent oversight and challenge to business line managers. The third line of defence is the Group Internal Audit function, under the Head of Group Internal Audit ("GIA"), which provides independent assurance to the Board Audit Committee on the effectiveness of the system of internal control.

Lines of Defence

The following outlines the high level roles each line of defence plays in risk management.

First Line of Defence

Business lines (First Line of Defence) have primary responsibility for risk management including: identifying, measuring, monitoring and controlling risks within their areas of accountability. They are required to establish effective governance and controls for their business to be compliant with Group policy requirements, to maintain appropriate risk management skills, mechanisms and toolkits, and to act within Group risk appetite parameters set and approved by the Board.

The First Line of Defence comprises the revenue generating and client facing areas, along with associated support functions. This includes customer businesses, business and customer services as well as support and control functions such as Human Resources, Customer and Strategic Affairs and Finance. In the UK Business, the same principles apply.

Line management in the individual business areas are responsible for ensuring that appropriate business controls and assessments are in place to adequately mitigate risks.

Second Line of Defence

The Second Line of Defence comprises Risk and Compliance (together "Risk" or "the Risk function") and oversees the First Line, setting the frameworks, policies and limits, consistent with the Risk Appetite of the Group, and credit sanctioning.

The functions are put in place by senior management to help ensure risk management processes and controls implemented by the First Line of Defence are adequately designed and operate effectively. The Second Line of Defence is responsible for providing independent oversight and challenge to business units' risk management activities and reporting. In the case of credit risk, independent oversight include Credit Risk's role in credit sanctioning. Challenge requires proactive engagement with business line managers to test and confirm the integrity and effectiveness of first line risk management. Nominated 'Second Line Risk Accountable Executives' are responsible for ensuring the formulation of risk appetite; that a Risk Policy and Framework is in place for the risks assigned to them.

Third Line of Defence

Group Internal Audit ("GIA") provides an independent, reasonable and objective assurance, on the key risks facing the Group, and the adequacy and operational effectiveness of governance, risk management, and the Internal Control environment in managing these risks. All activities undertaken within, and on behalf of, the Group are within the scope of GIA. This includes the activities of subsidiaries and the risk and control functions established by the Group.

GIA executes its Audit Plan including obtaining an understanding of processes and systems, evaluating their adequacy, and testing the effectiveness of key controls. Audit work is underpinned by comprehensive methodology and procedures documentation.

2.4.2 Committees with risk management responsibilities

The Board has delegated a number of risk governance responsibilities to various committees and key officers. The diagram on page 69 summarises the risk committee structure of the Group in 2018.

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 174 to 184. The role of the Sustainable Business Advisory Committee ("SBAC") is set out on page 20 Sustainability, governance and risk.

The Leadership Team comprises the Senior Executive managers of the Group who manage the strategic business risks of the Group. The team establishes the business strategy and risk appetite within which the Group operates.

The role of the Executive Risk Committee is to foster risk governance within the Group, to ensure that risks within the Group are appropriately managed and controlled, and to evaluate the Group's risk appetite against the Group's strategy. It is a sub-committee of the Leadership Team chaired by the Chief Financial Officer ("CFO"), and its membership includes the CRO and Chief Operating Officer ("COO") and the heads of significant business areas.

The ERC's principal duties and responsibilities include reviewing the effectiveness of the Group's risk frameworks and policies, monitoring and reviewing the Group's risk profile, risk trends, risk concentrations and policy exceptions, and monitoring adherence to approved risk appetite and other limits. The ERC acts as a parent body to both the Group Credit Committee ("GCC") and the Operational Risk Committee ("ORC").

Principal responsibilities of the GCC include: the exercising of approval authority for exposure limits to customers of the Group; exercising approval authority for credit policies; considering quarterly provision levels, assurance reviews and credit review reports; approving credit inputs to credit decisioning models, as well as reviewing and approving other credit related matters as they occur. The principal responsibility of the ORC is to provide oversight to ERC in relation to the current and potential future operational risks/profile facing the Group and operational risk strategy in that regard. The ORC reviews, approves and recommends, as appropriate, to the ERC, the BRC and the Board, the Operational Risk Framework and all other operational policies and standards. The ORC is also responsible for reviewing key operational risk assessments and mandating related action plans, where required.

The role of the Group Conduct Committee is to promote a sustaining customer first culture through the oversight of conduct across the Group's operations, including in Republic of Ireland, the UK and the USA, and to monitor compliance with the Board approved Conduct Risk Appetite and policy. It is a sub-committee of the Leadership Team chaired by the Chief Marketing Officer ("CMO"), who is responsible for ensuring a consistent approach to conduct risk management across the Group.

The Group Conduct Committee's principal duties include monitoring the Group's conduct profile to ensure it remains within risk appetite, approving and monitoring the effectiveness of the Group Conduct Risk Framework, and reviewing, and approving other conduct-related matters, including reviewing the process by which the Group and its subsidiaries identify and manage conduct risk, reviewing the Group's strategy to ensure customer outcomes and risks to customers are fully articulated, and developing conduct training programmes. The Group Conduct Committee acts as a parent to the Group Product and Proposition Committee, which has delegated authority for approving the launch of products and propositions, and oversight of the Group's overall product portfolio.

The role of the Asset and Liability Committee ("ALCo") is to act as the Group's strategic balance sheet management forum that combines a business decisioning and risk governance mandate. It is a sub-committee of the Leadership Team, chaired by the CFO and its membership includes the CRO and the heads of significant business areas. The ALCo is tasked with decision-making in respect of the Group's balance sheet structure, including capital, liquidity, funding, interest rate risk in the Banking Book ("IRRBB") from an economic value and net interest margin perspective, foreign exchange hedging risks, and other market risks. In ensuring sound capital and liquidity management and planning, the ALCo reviews and approves models for the valuation of financial instruments, for the measurement of market and liquidity risk, for regulatory capital, and for the calculation of expected and unexpected credit losses and stress testing. In addition, the ALCo directs the shape of the balance sheet through funds transfer pricing, direction on product pricing, and review and analysis of risk adjusted returns on capital ("RAROC").

The Model Risk Committee ("MRC") is established under the AIB Model Risk Framework and acts as a sub-committee of the Group ALCo. The Committee reviews and approves, or recommends to a higher governance authority, the use of AIB credit, operational and financial risk models. The Committee also monitors and maintains oversight of the performance of these models. The chair of the MRC is a member of the Risk senior management team, and the membership of the Committee includes representatives from Risk, Finance and relevant business lines in the Group.

The role of the Market Announcements Committee ("MAC") is to act as an advisory committee to the CEO and CFO in determining on a timely basis the treatment of material information relating to the Group and its impacted subsidiary entities in order to comply with insider information disclosure obligations under the Market Abuse Regulation ("MAR"), the Central Bank of Ireland's Market Abuse Rules, and the Irish Stock Exchange/Euronext Dublin Listing Rules.

The MAC's principal duties include determining whether information raised is deemed to be inside information and, if so, implementing and monitoring the appropriate procedure to be followed, together with assigning a business owner for each inside information event. The Committee also ensures that the Group issues an announcement in circumstances where an obligation to disclose insider information has arisen under MAR but where the Group is not yet in a position to provide full

Risk management – 2. Framework

details of the underlying facts. The MAC is chaired by the CFO, and its membership includes the CEO, the CRO, the Group General Counsel, the Director of Corporate Affairs, and the Group Treasurer.

The Group Disclosure Committee ("GDC") is responsible for reviewing Group financial information for compliance with the legal and regulatory requirements prior to external publication, and for exercising oversight of the Accounting Policies Forum, which ensures that the accounting policies adopted by the Group conform to the highest standards in financial reporting.

The role of the Arrears and Restructuring Priority Committee ("ARPC") is to take all decisions and actions required or deemed necessary in relation to the Group's non-performing loan exposures. It is a sub-committee of the Leadership Team and is chaired by the Head of Financial Solutions Group.

The Sustainable Business Executive Council ("SBEC") was established by the Leadership Team in 2017 as an executive council supporting the SBAC in the execution of the Group's sustainable business strategy in accordance with the approved Group strategic and financial plan.

The Council is comprised of members of the Leadership Team and senior managers representing a cross-section of all the Group's functions, and is co-chaired by the Director of Corporate Affairs and the CMO.

2.5 Group Risk Committee

In January 2019, the Group transitioned to a new operating model and internal governance structure. From a risk governance perspective, a key change was the replacement of the Executive Risk Committee ("ERC") with the Group Risk Committee ("GRC"). The GRC is a sub-committee of the Executive Committee ("ExCo") and is chaired by the Chief Risk Officer. The roles and responsibilities of the GRC are to:

- To set and approve (and where relevant recommend to the Board or "BRC") Risk Frameworks, Risk Appetite Statements ('RAS'), Risk Policies and limits to manage the risk profile of the Group;
- To monitor and review the Group's risk profile (Enterprise wide) including risk trends, concentrations, policy exceptions and impact on capital and agree mitigating actions when required;
- To periodically review the effectiveness of the Group's risk management policies for identifying, evaluating, monitoring, managing, and measuring significant risks;
- To provide oversight and challenge of regulatory, operational and conduct risk related matters;
- To provide oversight and challenge of credit risk management related matters (as escalated by the Group Credit Committee) and periodically review the credit portfolio exposures and trends;
- To provide oversight and challenge of risk measurement matters (as escalated by the Risk Measurement Committee);
- To provide oversight and challenge of data governance matters (as recommended by the Data Governance Committee);
- To oversee the development of the Group's risk management culture, including the promotion of a common risk language and mechanisms for communicating the risk culture and philosophy throughout the Group;
- To review twice yearly risk assessments prepared by the first line of business management and Business and Customer Services ("BCS") to identify and evaluate all significant risks and related risk management activities within the business;
- To advise the Executive Committee on the risk impact of any strategic initiatives that the Group might be considering and establish whether the initiative is established within risk appetite; and
- To provide advice to the BRC on risk governance, current and future risk exposures and risk appetite.

Other committees which are sub-committees of ExCo and have risk management responsibilities as part of their remit include:
- Group Asset and Liability Committee
- Group Talent and Culture Committee
- Group Change Committee
- Group Conduct Committee.

Risk management – 3. Individual risk types

Risk management – 3. Individual risk types

3.1 Credit risk

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

Credit risk can be categorised into the following four sub-risks;

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

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

Credit risk management and key principles

The principles and activities which govern the management of credit risk within the Group are as follows. These principles apply across the Group in the management of credit risk.

– Formulating and implementing a comprehensive credit risk strategy
  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 RAS and generate appropriate returns on capital within acceptable levels of credit quality.
– Establishing appropriate governance structures
  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.
– Developing and reinforcing a strong risk focused culture
  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.
– Ensuring all management and staff involved in core credit risk activities have the required skills appropriate to their duties and responsibilities
  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.
– Undertaking credit assessments within a sound and well defined credit granting process
  Operate within a sound and well defined credit granting process, within which risks for new and existing lending exposures are identified, assessed, measured, managed and reported in line with risk appetite and the credit risk policy.
– Establishing and enforcing effective monitoring and controls
  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.
– Maintaining sound methodology to identify deteriorating credit quality
  Ensure sound methodology exists to proactively assess risk and to identify deteriorating credit quality to minimise losses and maximise recoveries in work out scenarios.
– Using high quality management information for effective risk measures
  Utilise quality management information and risk data to ensure an effective credit risk measurement process when reporting on the holistic risk profile of the Group including any changes in risk profile and emerging or horizon risks.
– Mitigating credit risk arising from new or amended products
  Mitigate potential credit risk arising from new or amended products or activities.

The Group's credit risk framework as outlined on pages 69 to 74 supports the Credit Principles and encompasses a suite of credit policies, standards to support the credit risk sanctioning policies and policy guidance providing a common and consistent approach to the management of credit risk.

3.1 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 and challenge of credit risk-taking.

Group risk appetite statement

The Group's risk appetite statement ("RAS") defines the amount and nature of risks that the Group is willing to accept within its risk capacity in pursuit of its financial objectives and informs both Group strategy and policies. As part of the overall framework for risk governance, it forms a boundary condition to strategy and guides the Group in its risk-taking and related business activities. Credit risk appetite is set at Board level and is described, reported and monitored through a suite of metrics. These metrics are supported by more detailed appetite metrics at a business segment level. These are also supported by a comprehensive suite of credit risk policies, concentration limits and product and country limits to manage concentration risk and exposures within the Group's approved risk appetite. The Group's risk appetite for credit risk is reviewed and approved at least annually.

Credit approval overview

The Group operates credit approval criteria which:

- Includes a clear indication of the Group's target market(s), in line with Group and segment risk appetite statements;
- Requires 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
- Enforces 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 and grants authority to various credit committees and individuals to approve limits. 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.

Risk management – 3. Individual risk types

3.1 Credit risk

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. The use of internal credit risk rating models is fundamental in assessing the credit quality of loan exposures, with variants of these used for the calculation of regulatory capital. All relevant exposures are assigned to a rating system and within that to an internal risk grade. A grade is assigned on the basis of rating criteria within each rating model from which estimates of PD are derived (i.e. through the cycle).

Internal credit grading and scoring systems facilitate the early identification and management of any deterioration in loan quality. Changes in the objective information are reflected in the credit grade of the borrower with the resultant grade influencing the management of individual loans. 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.

The Group implemented IFRS 9 at 1 January 2018. The IFRS 9 PD modelling approach uses a combination of rating grades and scores obtained from these credit risk models along with key factors such as age of an account, the current/recent arrears status or the current/recent forbearance status and macro-economic factors to obtain the relevant 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 85 to 92.

Using internal models, the Group designed and implemented a credit grading masterscale that gives it the ability to categorise and contrast credit risk across different portfolios in a consistent manner. The masterscale consolidates complex credit information into a single attribute, aligning the output from risk models with the Group's definition of default ("DoD") policy. Credit grades are driven by model appropriated PDs in order to provide the Group with a mechanism for ranking and comparing credit risk associated with a range of customers. The masterscale categorises loans into a broad range of grades which can be summarised into the following categories: strong/satisfactory grades, criticised grades and non-performing loans.

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 0.98% and less than 6.95%): Satisfactory credit with no weakness evident.

Criticised

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

Non-performing/default

On 1 January 2018, the Group introduced a new definition of default aligned with the EBA 'Guidelines on the application of the definition of default' under Article 178 of Capital Requirements Regulation and ECB Banking Supervision Guidance to Banks on Non-performing loans. The Group has aligned the definitions of 'non-performing loans', '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).

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

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

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

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

*Forms an integral part of the audited financial statements

3.1 Credit risk

Internal credit ratings* *(continued)*

Non-performing/default *(continued)*

Non-performing loans are analysed by the following categories on page 121:

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

The new Masterscale categories outlined above are materially different to the grade categories the Group used in previous years (and in 2017 comparatives on pages 94 and 96) and are, therefore, not directly comparable. The previous years' definitions of grade categories are set out below:

Satisfactory: *Loans that are neither watch, vulnerable nor impaired are considered satisfactory. These loans are further analysed into:*

Good upper: *Strong credit with no weakness evident. Typically includes elements of the residential mortgages portfolio combined with strong corporate and commercial lending.*

Good lower: *Satisfactory credit with no weakness evident. Typically includes new business written and existing satisfactorily performing exposures across all portfolios.*

Watch: *The credit is exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cash flows.*

Vulnerable: *Credit where repayment is in jeopardy from normal cash flows and may be dependent on other sources, or loans that are in a post impairment/restructuring phase.*

Impaired: *A loan is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a 'loss event') and that loss event (or events) has an impact such that the present value of estimated future cash flows is less than the current carrying value of the financial asset or group of assets and requires an impairment provision to be recognised in the income statement.*

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, at a high level, the principles of how the Group identifies, assesses, approves, monitors and reports credit risk to ensure robust credit risk management is in place. 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.

In circumstances where a policy breach occurs, it must be reported to Senior Management and Credit Risk to assess the nature of the breach and any required remedial action to mitigate the likelihood of re-occurrence.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit exposure

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 2018 and 2017:

			2018			2017
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)]	**5,908**	**–**	**5,908**	5,731	–	5,731
Items in course of collection	**73**	**–**	**73**	103	–	103
Trading portfolio financial assets[(4)]	**–**	**–**	**–**	–	32	32
Derivative financial instruments	**–**	**900**	**900**	–	1,156	1,156
Loans and advances to banks	**1,443**	**–**	**1,443**	1,313	–	1,313
Loans and advances to customers	**60,721**	**147**	**60,868**	59,993	–	59,993
Investment securities[(5)]	**187**	**15,946**	**16,133**	–	15,642	15,642
Included elsewhere:						
Trade receivables	**112**	**–**	**112**	277	–	277
Accrued interest	**301**	**–**	**301**	307	–	307
	68,745	**16,993**	**85,738**	67,724	16,830	84,554
Financial guarantees	**780**	**–**	**780**	880	–	880
Loan commitments and other credit related commitments	**11,107**	**–**	**11,107**	10,231	–	10,231
	11,887	**–**	**11,887**	11,111	–	11,111
Total	**80,632**	**16,993**	**97,625**	78,835	16,830	95,665

[(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 € 6,516 million (2017: € 6,364 million).

[(4)]Excluding equity shares of Nil (2017: € 1 million).

[(5)]Excluding equity shares of € 728 million (2017: € 679 million).

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit exposure

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

Changes in sectoral and single name concentrations are tracked on a quarterly basis highlighting changes to risk concentration in the Group's loan book. A report on any exceptions to credit policy is presented and reviewed regularly. 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 list, or early warning list, the exposure is carefully monitored and where appropriate, exposure reductions are effected.

As a matter of policy, all facilities granted to corporate and wholesale customers are subject to a review on, at least, an annual basis, even when they are performing satisfactorily. Annual review processes are supplemented by more frequent portfolio and case review processes in addition to arrears or excess management processes.

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

The Group operates a number of schemes to assist borrowers who are experiencing financial stress. The material elements of these schemes through which the Group has granted a concession, whether temporarily or permanently are set out below. The Group employs a dedicated approach to loan workout and to monitoring and proactively managing non-performing loans. Specialised teams focus on managing the majority of criticised loans. Specialist recovery functions deal with customers in default, collection or insolvency. Their mandate is to maximise return on non-performing debt and to support customers in difficulty. 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.

Forbearance*

Forbearance occurs when a borrower is granted a temporary or permanent concession or an agreed change to the terms of a loan ('forbearance measure') for reasons relating to the actual or apparent financial stress or distress of that borrower. A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable currently to repay both the principal and interest in accordance with the original contract terms. Modifications to the original contract 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 customers. The Group considers requests from customers who are experiencing cash flow difficulties on a case by case basis and will assess these requests against their current and likely future financial circumstances and their willingness to resolve such difficulties, taking into account legal and regulatory obligations. Key principles include supporting viable Small Medium Enterprises ("SMEs"), and providing support to enable customers remain in the family home, whenever possible. The Group has implemented the standards for the Codes of Conduct in relation to customers in difficulty, as set out by the Central Bank of Ireland, ensuring these customers are dealt with in a professional and timely manner.

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 finances;
– Assessment – Using the financial information to assess the customer's situation; and
– Resolution – We work with the customer to find a resolution.

The core objective of the process is to determine sustainable solutions that, where possible, help to keep customers in their family home. This includes the following longer-term forbearance solutions which have been devised to assist existing Republic of Ireland primary residential mortgage customers in difficulty:

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit exposure

Forbearance* (continued)

Low fixed interest rate sustainable solution – This solution aims to support customers who have an income (and can afford a mortgage), but the income is not currently sufficient to cover full capital and interest repayments on their mortgage based on the current interest rate(s) and/or personal circumstances. Their current income is, however, sufficient to cover full capital and interest at a lower rate. It involves the customer being provided with a low fixed interest rate for an agreed period after which the customer will convert to the prevailing market rate for the remainder of the term of the mortgage on the basis that there is currently a reasonable expectation that the customer's income and/or circumstances will improve over the period of the reduced rate. The customer must pay the full capital and agreed interest throughout;

Split mortgages – A split mortgage will be considered where a customer can afford a mortgage but their income is not sufficient to fully support their current mortgage. The existing mortgage is split into two parts: Loan A being the sustainable element, which is repaid on the basis of principal and interest, and Loan B being the unsustainable element, which is deferred and becomes repayable at a later date. This solution may also include an element of debt write-off, where applicable;

Negative equity trade down – This solution allows a customer to sell his/her house and subsequently purchase a new property and transfer the negative equity portion of the original property to a new loan secured on the new property. A negative equity trade down mortgage will be considered where a customer will reduce monthly loan repayments and overall indebtedness by trading down to a property more appropriate to his/her current financial and other circumstances;

Voluntary sale for loss – A voluntary sale for loss solution will be considered where the loan is deemed to be unsustainable and the customer is agreeable to selling the property and putting an appropriate agreement in place to repay any residual debt. This solution may also include an element of debt write-off, where applicable; and

Positive equity sustainable solution – This solution involves a reduced payment to support customers who do not qualify for other forbearance solutions such as split loans due to positive equity.

Credit policies are in place which outline the principles and processes underpinning the Group's approach to mortgage forbearance.

Non-mortgage portfolio
The Group has also developed treatment strategies for customers in the non-mortgage portfolio who are experiencing financial difficulties. The approach has been to develop strategies on an asset class basis, and to then apply those strategies at the customer level to deliver a holistic debt management solution. This approach is based on customer affordability 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 provided where customers are co-operative, and are willing but unable to pay.

The restructuring process is one of structured engagement to assess the long term levels of sustainable and unsustainable debt. The process broadly moves from an initial customer disclosure stage, through to engagement and analysis, through to an initial proposal from the Group, followed by credit approval, documentation and drawdown. The commercial aspects of this process require that customer affordability is viewed holistically, to include all available sources of finance for debt repayment, including unencumbered assets.

The debt solutions provided allow the customer to enter into a performance based arrangement, typically over a five year period, which will be characterised by the disposal of non-core assets, contribution of unencumbered assets, and contribution towards residual debt from available cash flow. This process may result in debt write-off, where applicable.

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 treatment. This may result in the downgrading of the credit grade assigned and an increase in the expected credit loss. Loans to which forbearance has been applied continue to be classified as forborne until the forbearance measures expire or until an appropriate probation period has passed.

Types of forbearance include: temporary arrangements (such as placing the facility on interest only); permanent sustainable solutions including fundamental restructures (which may include an element of potential debt write-down); part capital/interest basis for a period of time; extension of the facility term; split loans; and in some cases, a debt for equity swap or similar structure.

See accounting policy (t) 'Impairment of financial assets' in note 1 to the consolidated financial statements.

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

Further details on forbearance are set out in 'Risk management 3.2 Additional credit quality and forbearance disclosures on loans and advances to customers'.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit exposure

Credit risk mitigants*

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

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

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

The Group also has in place an interbank exposure policy which establishes the maximum exposure for each counterparty bank depending on credit rating. Each bank is assessed for the appropriate exposure limit within the policy. Risk generating business units in each segment are required to have an approved bank or country limit prior to granting any credit facility, or approving any 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 or guarantees are required, they are usually taken as a secondary source of repayment in the event of the borrower's default. The Group maintains policies which detail the acceptability of specific classes of collateral.

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

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

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

Methodologies for valuing collateral

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

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

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

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit exposure

Credit risk mitigants* *(continued)*

Methodologies for valuing collateral *(continued)*

The residual value analysis methodology assesses the value of the asset after meeting the incremental costs to complete the development. This approach looks at the cost of developing the asset to determine the residual value for the Group, including covering the costs to complete and additional funding costs. The key factors considered in this methodology include:
(i) the development potential given the location of the asset;
(ii) its current or likely near term planning status;
(iii) levels of current and likely future demand;
(iv) the relevant costs associated with the completion of the project; and
(v) expected market prices of completed units.
If, following internal considerations which may include consultations with valuers, it is concluded that the optimal value for the Group will be obtained through the development/completion of the project, a residual value methodology is used. When, in the opinion of the Group, the land is not likely to be developed or it is non-commercial to do so, agricultural values may be applied. Alternative use value (subject to planning permission) may also be considered.

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

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

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

Property collateral is reviewed on a regular basis in accordance with the Property Valuation policy and Guidelines.

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

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

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.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit exposure

Credit risk mitigants* *(continued)*

Summary of risk mitigants by selected portfolios

Set out below are details of risk mitigants used by the Group in relation to financial assets detailed in the maximum exposure to credit risk table on page 78.

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 2018. Comparative data for 2017 has been prepared under IAS 39.

					2018				2017
	At amortised cost								
	Stage 1	Stage 2	Stage 3	POCI	Total	Neither past due nor impaired	Past due but not impaired	Impaired	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Fully collateralised[1]									
Loan-to-value ratio:									
Less than 50%	10,187	1,290	835	28	12,340	9,901	282	488	10,671
50% - 70%	8,241	1,065	700	75	10,081	8,991	248	564	9,803
71% - 80%	3,300	416	312	39	4,067	4,074	98	303	4,475
81% - 90%	2,377	305	263	30	2,975	2,876	86	308	3,270
91% - 100%	1,047	203	255	25	1,530	1,800	55	336	2,191
	25,152	3,279	2,365	197	30,993	27,642	769	1,999	30,410
Partially collateralised									
Collateral value relating to loans over 100% loan-to-value	405	137	501	14	1,057	1,695	82	1,005	2,782
Total collateral value	25,557	3,416	2,866	211	32,050	29,337	851	3,004	33,192
Gross residential mortgages	25,617	3,441	3,023	234	32,315	29,558	869	3,293	33,720
ECL allowance	(8)	(51)	(623)	(31)	(713)				
Statement of financial position specific provisions								(1,135)	(1,135)
Statement of financial position IBNR provisions									(283)
Net residential mortgages	25,609	3,390	2,400	203	31,602			2,158	32,302

[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 2018 is estimated based on property values at origination or date of latest valuation and applying the CSO Residential Property Price Index (Republic of Ireland) and Nationwide House Price Index (United Kingdom) to these values to take account of price movements in the interim.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit exposure

Credit risk mitigants* *(continued)*

Loans and advances to customers – other

In addition to the credit risk mitigants outlined on the previous page, the Group, from time to time, enters reverse repurchase agreements with borrowers. However, there were no such agreements outstanding at 31 December 2018. At 31 December 2017, the Group had accepted collateral with a fair value of € 19 million in respect of reverse repurchase agreements.

Derivatives

Derivative financial instruments are recognised in the statement of financial position at their fair value. Those with a positive fair value are reported as assets which at 31 December 2018 amounted to € 900 million (2017: € 1,156 million) and those with a negative fair value are reported as liabilities which at 31 December 2018 amounted to € 934 million (2017: € 1,170 million).

The enforcement of netting agreements would potentially reduce the statement of financial position carrying amount of derivative assets and liabilities by € 325 million at 31 December 2018 (2017: € 534 million). The Group also has Credit Support Annexes ("CSAs") in place which provide collateral for derivative contracts. At 31 December 2018, € 609 million (2017: € 522 million) of CSAs are included within financial assets as collateral for derivative liabilities and € 266 million (2017: € 193 million) of CSAs are included within financial liabilities as collateral for derivative assets (note 47 to the consolidated financial statements). Additionally, the Group has agreements in place which may allow it to net the termination values of cross currency swaps upon occurrence of an event of default.

Loans and advances to banks

Interbank placings, including central banks, are largely carried out on an unsecured basis apart from reverse repurchase agreements. However, there were no repurchase agreements outstanding at 31 December 2018. The collateral received in respect of repurchase agreements at 31 December 2017 had a fair value of € 3 million.

Investment securities

At 31 December 2018, government guaranteed senior bank debt which amounted to € 250 million (2017: € 196 million) was held within the investment securities portfolio.

*Forms an integral part of the audited financial statements

3.1 Credit risk
Measurement, methodologies and judgements*
Introduction
The Group has set out the methodologies used and judgements exercised in determining its expected credit loss ("ECL") for both transition to IFRS 9 at 1 January 2018 and for the year to 31 December 2018.

IFRS 9 introduces the expected credit loss impairment model that will require a more timely recognition of ECL across the Group. IFRS 9 replaces the concept of recognising credit losses only when there is objective evidence that a loss has been incurred. The impairment requirements under IFRS 9 are based on an expected credit loss model and replace the IAS 39 incurred loss model. The standard does not prescribe specific approaches used to estimate the ECL, but stresses that the approach must reflect the following:
– An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
– Underlying models should be point in time – recognising economic conditions;
– The ECL must reflect the time value of money;
– A lifetime ECL is calculated for financial assets in Stages 2 and 3; and
– Models used in the ECL calculation must incorporate reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

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

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

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

Measurement bases
Under IFRS 9, there are two measurement bases:
1 12-month ECL (Stage 1), which applies to all financial instruments from initial recognition as long as there has been no significant increase in credit risk;
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
Under IFRS 9, financial assets are allocated to stages dependent on credit quality relative to when assets were originated.

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

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

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

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

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Stage 1 characteristics

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

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

Stage 2 characteristics

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

The Group assesses at each reporting date whether a significant increase has occurred on its financial assets since their initial recognition. This assessment is performed on individual assets 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.

The Group's SICR assessment is determined based on:

Quantitative measure: This measure reflects an arithmetic assessment of the change in credit risk arising from changes in the probability of default. The Group compares each obligation's annualised average probability weighted residual lifetime probability of default ("LTPD") at origination (see the CRAO section) to its annualised average probability weighted residual LTPD at the reporting date. If the difference between these two LTPDs meets the quantitative definition of SICR, the Group moves the financial asset into Stage 2. Increases in LTPD may be due to credit deterioration of the individual asset or due to macroeconomic factors. The Group has determined that an account has met the quantitative measure if the average residual LTPD at the reporting date is more than double the average residual LTPD at origination. This is subject to the difference between the LTPDs being at least 50bps.

Qualitative measure: This measure reflects the assessment of the change in credit risk based on the Group's credit management of 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 and includes direct client contact, monitoring of client accounts on an individual or portfolio level, knowledge of client behaviour, and cognisance of industry and economic trends.

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

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

Where SICR criteria is no longer a trigger and the obligor is not credit-impaired, the account can exit Stage 2.

Stage 3 characteristics

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

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

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

Loans can re-default if any of the default triggers apply or where probation requirements are not adhered to.

*Forms an integral part of the audited financial statements

3.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Purchased or originated credit impaired ("POCI")

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

Measurement

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

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

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

iii. Discounted cash-flows ("DCFs"): Assets are grouped together and modelled based on asset classification and sector with the exception of those Stage 3 assets where a DCF is used. DCFs are used as an input to the ECL calculation for Stage 3 credit impaired exposures where gross credit exposure is ≥ € 1 million (Republic of Ireland) or ≥ £ 500,000 (UK) or where previously individually assessed and impaired under IAS 39.

   Collateral valuations and the estimated time to realisation of collateral is a key component of the DCF model. The Group incorporates forward looking information in the assessment of individual borrowers through the credit assessment process. The DCF assessment produces a base case ECL. This is then adjusted to incorporate the impact of multiple scenarios on the base ECL, by using a proportional uplift obtained from Stage 2 sensitivities in the same portfolio.

iv. Management judgement: Where the estimate of ECL does not adequately capture all available forward looking information about the range of possible outcomes, or where there is a significant degree of uncertainty, management judgement may be applied.

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 methodology to incorporate the adjustment should consider the degree of over collateralisation (headroom) and should not result in a zero overall ECL unless there is sufficient headroom to support this.

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 under IFRS 9. 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

As allowed by IFRS 9, the Group utilises the practical expedient 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.

*Forms an integral part of the audited financial statements

3.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

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

If an asset does not meet the above criteria for the low credit risk exemption, further assessment is required to determine stage allocation. If such assets are on a watch list, they are categorised as Stage 2, otherwise, they are allocated to Stage 1.

Short-term cash

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

Lease receivables and trade receivables

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

Credit risk models

Probability of default

Probability of default (“PD”) is the likelihood that an account or borrower defaults over an observation period, given that they are not currently in default. The PD modelling approach uses a combination of rating grades/scores obtained from credit risk models, as outlined on page 76, along with key factors such as the age of an account, the current/recent arrears status or the current/recent forbearance status and macroeconomic factors to obtain the relevant 12 month (Stage 1) and Lifetime (Stage 2) PD.

Loss given default

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

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

Retail portfolios

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

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

Non-retail portfolios

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

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

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.

*Forms an integral part of the audited financial statements

3.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Determining the period over which to measure ECL

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

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

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

Write-offs

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

Debt forgiveness may subsequently arise where there is a formal contract with the customer for the write-off of the loan. In addition, certain forbearance solutions and restructuring agreements may include an element of debt write down (debt forgiveness). Refer to pages 79 and 80 for details of forbearance.

The contractual amount outstanding of loans written off during the year that are still subject to enforcement activity are outlined on page 108 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 IFRS 9 purposes is subject to the Group's existing governance process covering the development and approval of macroeconomic scenarios for planning and stress testing i.e. through Stress Test Working Group and Asset and Liability Committee (ALCo). As outlined above, the parameter models include macroeconomic factors as drivers of the risk. Therefore, different ECLs are produced under different macroeconomic scenarios. These ECL outcomes are then weighted by the assessed likelihood attaching to each of the different scenarios.

Macroeconomic scenarios:

The Group's approach is to use its base, downside and upside macro-scenarios from the financial planning and stress testing processes for IFRS 9 purposes. The use of current planning scenarios ensures that the scenarios used for IFRS 9 are consistent with the Group's expectations of potential outcomes at a point in time. Non-linear effects are captured in the development of risk parameters as well as through the inclusion of both an upside and a downside case (currently a 'no deal' Brexit which includes a relatively severe impact for the key UK/Republic of Ireland ("ROI") economies). The AIB Economic Research Unit provide base, downside and upside forecasts over 5 years for planning/IFRS 9. The base case is benchmarked against the outlook available from official sources (e.g. Department of Finance, ESRI, IMF, etc.). Upside and downside scenarios are provided representing sensitivities around the base. For IFRS 9 purposes, longer-term projections are sourced from a reputable external provider with the internal base/upside and downside scenarios converging on a linear basis towards the external forecasts from years 5 to 8. External long-term forecasts represent long-term base line forecasts for the parameter/economy in question. The forecasted scenarios are approved on a quarterly basis at Group ALCo.
The scenarios are described below and reflect the views of the Group at the reporting date.

Base case: As at the reporting date, this reflects an 'orderly' Brexit outcome. This reflects deceleration in Irish house price inflation reflecting rising supply and the impact of the central bank's macro-prudential rules on mortgage lending. In terms of the US economy, GDP is expected to continue to grow, helped by the significant fiscal stimulus, while in the UK GDP is also expected to grow at close to the historical average. Growth in the Eurozone is expected to ease back in 2019 and continuing to trend gradually lower thereafter. These developments (in addition to tighter monetary conditions, the absorption of remaining spare capacity in the economy and some slowing due to 'orderly' Brexit effects) are reflected in a slight moderation in Irish growth over the horizon.

Downside: Under this scenario, the EU and UK fail to conclude a Withdrawal Agreement. The UK leaves the EU Customs Union and Single Market in March 2019 in a disorderly Brexit and has to apply WTO rules. Irish GDP growth contracts significantly in this period. Brexit results in a sharp decline in trade between the UK and EU as well as an outflow of investment from the UK, especially from the financial sector and a decline in FDI. UK GDP growth is estimated to be significantly lower than in the base case, with the economy experiencing a recession from 2019-2021. The 'no deal' Brexit has a significant negative impact on the Irish economy with exports to the UK subject to customs checks, tariffs, increased administration and regulatory costs and transport delays. The scenario also includes a further decline in sterling than in the base case.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Taking the expected rise in inward investment into Ireland in a 'no deal' Brexit into account the scenario assumes that Irish GDP growth is lower in a 'no deal' Brexit downside scenario than in our base case over the three years to 2021 although the adverse effects are offset somewhat by an expected rise of inward investment into Ireland (as firms divert new or existing investments away from the UK).

Upside: With continued low interest rates globally, due to subdued inflation, a US fiscal stimulus and improved productivity from a pick-up in investment, growth in advanced economies could strengthen. Emerging markets could also benefit if the improvement in commodity prices and trade continues. A long transition period may be agreed as part of a Brexit withdrawal agreement whereby the UK retains full access to EU markets until a final trade deal is negotiated. Ireland, as a small open economy, benefits due to better than expected export performance. This will 'spill-over' to the domestic side of the economy helped by expansionary fiscal policy. There is a strong pick-up in house building helped, in part, by government initiatives. As a result, Irish growth is higher over the 2019-21 planning horizon relative to Base. House price inflation decelerates at a slower pace than in the base case in this environment.

The following table details some of the key macroeconomic variables:

Base forecast	2018 (Actual) %	2019 %	2020 %	2021 %	2022 %	2023 %
Macroeconomic factors						
Ireland						
GDP growth	7.0	4.0	3.5	3.2	3.0	3.0
Residential property price growth	10.3	7.5	5.2	5	4.7	4.2
Unemployment rate	5.8	5.2	5.0	4.9	4.8	4.8
Commercial property price growth	2.4	3.9	3.9	3.9	4.0	4.0
United Kingdom						
GDP growth	1.4	1.6	1.7	1.6	1.5	1.5
Residential property price growth	3.3	1.5	3.6	4.5	4.8	4.3
Unemployment rate	4.1	4.1	4.0	4.0	4.0	4.0
Commercial property price growth	4.8	2.6	4.0	3.9	3.5	2.9

Downside forecast	2018 (Actual) %	2019 %	2020 %	2021 %	2022 %	2023 %
Macroeconomic factor						
Ireland						
GDP growth	7.0	2.25	1.0	1.5	2.5	3.5
Residential property price growth	10.3	5.7	1.7	1.5	3.0	4.0
Unemployment rate	5.8	5.8	6.9	7.7	7.7	7.5
Commercial property price growth	2.4	0.4	-2.4	-1.6	2	4.1
United Kingdom						
GDP growth	1.4	0.0	-0.5	-0.5	1.0	2.0
Residential property price growth	3.3	-2.9	-5.5	-6.0	-1.0	4.0
Unemployment rate	4.1	5.0	6.0	7.0	7.5	7.3
Commercial property price growth	4.8	-1.5	-5.6	-4.2	0.4	4.6

Upside forecast	2018 (Actual) %	2019 %	2020 %	2021 %	2022 %	2023 %
Macroeconomic factor						
Ireland						
GDP growth	7.0	5.0	5.0	5.0	4.0	3.0
Residential property price growth	10.3	8.3	7.7	7.7	8.0	7.0
Unemployment rate	5.8	4.9	4.6	4.4	4.2	4.2
Commercial property price growth	2.4	6	7.2	7.7	5.7	3.6
United Kingdom						
GDP growth	1.4	2.5	3.0	3.0	2.0	1.5
Residential property price growth	3.3	2.3	6.6	7.4	6.9	5.2
Unemployment rate	4.1	3.9	3.6	3.4	3.3	3.3
Commercial property price growth	4.8	5	8.8	10	6.5	3.2

*Forms an integral part of the audited financial statements

3.1 Credit risk

Measurement, methodologies and judgements* *(continued)*

Macroeconomic scenario weightings

The three scenarios detailed above are used to reflect a representative sample of possible outcomes (i.e. base, downside and upside scenarios). The ECL allowance reflects a weighted average of the ECLs under the 3 scenarios.

The weights for the scenarios are derived based on the expert judgement informed by a quantitative analysis. The quantitative analysis incorporates two approaches: a statistical analysis informed by both historic patterns in the economic data complemented by a more forward looking approach. These weightings have been reviewed regularly throughout 2018. The weightings have evolved over the year, reflecting both Brexit developments in the UK and uncertain economic conditions internationally. The table below shows the evolution of the weightings throughout 2018.

The scenario weightings are approved on a quarterly basis at Group ALCo.

The weights that have been applied as at the reporting date and approved in January 2019 are:

Scenario	Weighting	
	1 January 2018	31 December 2018
Base	60%	50%
Downside	20%	35%
Upside	20%	15%

In assessing the adequacy of the ECL provisions, the Group has considered all available forward looking information as of the balance sheet date in order to estimate the future expected credit losses in line with IFRS 9. The Group, through its risk management processes (including the use of expert credit judgement and other techniques) assesses its ECL provisions 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 three scenarios. Should the credit environment deteriorate beyond the Group's expectation, the Group's estimate of ECL would increase accordingly.

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, based on the aggregate impact of each scenario before the application of probability weights. Relative to the Base scenario, in the 100% Downside scenario, the ECL allowance increases by 11.1% and in the 100% Upside scenario, the ECL allowance declines by 5.3%, showing that the ECL impact of the Downside is greater than that of the Upside.

	Loss allowance at 31 December 2018			
	Reported (50% Base, 35% Downside, 15% Upside)	100% Base, 0% Downside, 0% Upside	0% Base, 100% Downside, 0% Upside	0% Base, 0% Downside, 100% Upside
Loans and advances to customers	Total € m	Total € m	Total € m	Total € m
Residential mortgages	713	691	789	607
Other personal	253	248	262	248
Property and construction	480	460	521	451
Non-property business	593	576	631	565
Total	2,039	1,975	2,203	1,871
Off-balance sheet loan commitments	25	24	27	24
Financial guarantee contracts	34	35	32	31
	2,098	2,034	2,262	1,926

*Forms an integral part of the audited financial statements

3.1 Credit risk
Measurement, methodologies and judgements* *(continued)*

Management judgement
Stage 3 PDH mortgage ECL
The Group estimates its ECL allowance based on its historic experience of working out arrangements with customers which predominantly consist of split mortgages, low fixed interest rate, voluntary sale for loss, negative equity trade down and positive equity solutions. This is consistent with the Group's strategy to deliver sustainable long-term solutions and to support customers. In particular, the IFRS 9 Mortgage LGD model which was implemented from 1 January 2018 is based on the actual empirical internal data for such resolved and unresolved cases, and represents the Group's expected loss based on those current and expected work-out strategies at the time. However, for a cohort of loans that are deep in arrears and/or in a legal process for a significant period of time, it is recognised that alternative recovery strategies may need to be considered. To reflect the range of possible outcomes for this cohort where alternative recovery strategies are required, management judgement has been applied to increase the ECL outcome on transition at 1 January 2018 and at 31 December 2018. As a result, the ECL allowance of € 686 million for residential mortgages in the Republic of Ireland at 31 December 2018 includes € 239 million for this management judgement.

Details on the Republic of Ireland residential mortgages are set out on pages 110 to 112 and pages 128 to 130.

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 approval process during 2018 were:
- Model Risk Committee
- Assets and Liabilities Committee
- Business level ECL Committees
- Group Credit Committee, and
- Executive Risk Committee/Leadership Team/ Board Audit Committee

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

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

Please reference 'Governance and Oversight', page 167 for details on each key Committee.

*Forms an integral part of the audited financial statements

3.1 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 credit profiles of the loan portfolio are set out on pages 93 to 145. These have been prepared under IFRS 9. Whilst comparative data for 2017 has also been provided, this has been prepared under IAS 39 and therefore, direct comparability is not possible as a result of the different nature and basis of composition.

A summarised profile of loans and advances to customers is under IFRS 9 is set out below. Comparative data for 31 December 2017 has been prepared under IAS 39 and the analysis of the asset quality uses the definitions in operation during 2017 which are set out on page 77. Details of the impact of adopting IFRS 9 at 1 January 2018 are set out in note 3 to the consolidated financial statements.

							2018*
	Amortised cost					FVTPL	
Credit profile[(1)]	**Stage 1 € m**	**Stage 2 € m**	**Stage 3 € m**	**POCI € m**	**Total € m**	**Total € m**	**Total € m**
Strong	39,148	923	–	3	40,074	73	40,147
Satisfactory	10,923	1,262	–	–	12,185	–	12,185
Total strong/satisfactory	50,071	2,185	–	3	52,259	73	52,332
Criticised watch	1,226	1,596	–	1	2,823	–	2,823
Criticised recovery	184	1,509	–	5	1,698	–	1,698
Total criticised	1,410	3,105	–	6	4,521	–	4,521
Non-performing	212	–	5,541	227	5,980	74	6,054
Gross carrying amount loans and advances to customers	51,693	5,290	5,541	236	62,760	147	62,907
ECL allowance	(171)	(271)	(1,566)	(31)	(2,039)		(2,039)[(2)]
Carrying amount of loans and advances to customers	51,522	5,019	3,975	205	60,721	147	60,868

(1) A description of credit profile is outlined on page 76.

(2) The ECL allowance on non-performing loans amounted to € 1,608 million.

The above table outlines the credit profile of the Group's customer loans portfolio and the relationship with staging outcomes. The credit profile reflects the Group's internal credit grading systems and risk classification.

Of the total loans to customers of € 62.9 billion, € 52.3 billion are rated as either 'strong' or 'satisfactory'. These represent the best performing assets and as a result are primarily in Stage 1 with the lowest ECL allowance requirement. Of the € 52.3 billion, € 2.2 billion are in Stage 2 due to observed deterioration relative to where the loans originated.

The 'criticised' classification includes 'criticised watch' of € 2.8 billion and 'criticised recovery' of € 1.7 billion. Factors considered in identifying criticised cases include a PD of greater than 6.95%, the presence of arrears or cases which have been granted forbearance or downgraded from 'strong' or 'satisfactory' grades.

'Criticised watch' of € 2.8 billion primarily relates to downgrade activity and as such, there is a strong correlation with Stage 2 and an observed increased in credit risk. Some 'criticised watch' exposures are in Stage 1 due to granting of new lending at 'watch' grades or origination events.

Similarly, the 'criticised recovery' of € 1.7 billion also has a strong correlation with Stage 2 outcomes as it represents those loans which have recovered from non-performing or which have received forbearance and as such are in Stage 2 reflecting that risk profile.

Non-performing loans amounting to € 6.1 billion are aligned to the Group's definition of default and Stage 3 credit impaired with the exception of those originating in Stage 1 or POCI.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

	2017* Total € m
Satisfactory	
Good upper	19,864
Good lower	29,123
Total satisfactory	48,987
Watch	2,035
Vulnerable	5,986
Impaired	6,330
Total gross loans and advances	63,338[1]
Specific provisions	(2,722)
IBNR provisions	(623)
Total provisions for impairment	(3,345)
Gross loans and advances to customers less provisions	59,993

[1]Of which non-performing loans amount to € 10,194 million.

A detailed analysis of loans and advances to customers by asset class and internal credit ratings profile is set out below.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

The table below analyses loans and advances to customers by asset class and internal credit ratings profile at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39 and the analysis of the asset quality uses the definitions in operation during 2017 which are set out on page 77.

	2018*						
	Amortised cost					FVTPL	
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Total € m	Total € m
Residential mortgages							
Strong	22,478	828	–	3	23,309	–	23,309
Satisfactory	2,638	659	–	–	3,297	–	3,297
Total strong/satisfactory	25,116	1,487	–	3	26,606	–	26,606
Criticised watch	479	882	–	1	1,362	–	1,362
Criticised recovery	1	1,072	–	5	1,078	–	1,078
Total criticised	480	1,954	–	6	2,440	–	2,440
Non-performing[1]	21	–	3,023	225	3,269	–	3,269
Gross carrying amount	25,617	3,441	3,023	234	32,315	–	32,315
ECL allowance	(8)	(51)	(623)	(31)	(713)		(713)
Carrying amount	25,609	3,390	2,400	203	31,602	–	31,602
Other personal							
Strong	1,201	43	–	–	1,244	–	1,244
Satisfactory	1,062	159	–	–	1,221	–	1,221
Total strong/satisfactory	2,263	202	–	–	2,465	–	2,465
Criticised watch	68	128	–	–	196	–	196
Criticised recovery	1	68	–	–	69	–	69
Total criticised	69	196	–	–	265	–	265
Non-performing[1]	2	–	343	–	345	–	345
Gross carrying amount	2,334	398	343	–	3,075	–	3,075
ECL allowance	(29)	(52)	(172)	–	(253)		(253)
Carrying amount	2,305	346	171	–	2,822	–	2,822
Property and construction							
Strong	4,286	23	–	–	4,309	73	4,382
Satisfactory	1,458	82	–	–	1,540	–	1,540
Total strong/satisfactory	5,744	105	–	–	5,849	73	5,922
Criticised watch	141	201	–	–	342	–	342
Criticised recovery	158	109	–	–	267	–	267
Total criticised	299	310	–	–	609	–	609
Non-performing[1]	157	–	1,187	2	1,346	74	1,420
Gross carrying amount	6,200	415	1,187	2	7,804	147	7,951
ECL allowance	(41)	(36)	(403)	–	(480)		(480)
Carrying amount	6,159	379	784	2	7,324	147	7,471
Non-property business							
Strong	11,183	29	–	–	11,212	–	11,212
Satisfactory	5,765	362	–	–	6,127	–	6,127
Total strong/satisfactory	16,948	391	–	–	17,339	–	17,339
Criticised watch	538	385	–	–	923	–	923
Criticised recovery	24	260	–	–	284	–	284
Total criticised	562	645	–	–	1,207	–	1,207
Non-performing[1]	32	–	988	–	1,020	–	1,020
Gross carrying amount	17,542	1,036	988	–	19,566	–	19,566
ECL allowance	(93)	(132)	(368)	–	(593)		(593)
Carrying amount	17,449	904	620	–	18,973	–	18,973
Total carrying amount of loans and advances to customers	51,522	5,019	3,975	205	60,721	147	60,868

[1]For further analysis of non-performing loans, see page 121.

As at 31 December 2018, 83% of total loans and advances to customers are in a strong/satisfactory grade. 7% are in a criticised grade with the remaining 10% being classified as non-performing.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	2017* Total € m
Neither past due nor impaired					
Good upper	17,564	227	205	1,861	19,857
Good lower	8,657	2,135	5,123	13,012	28,927
Watch	1,033	69	187	384	1,673
Vulnerable	2,304	173	1,227	1,264	4,968
Total	29,558	2,604	6,742	16,521	55,425
Past due but not impaired					
Good upper	3	3	–	1	7
Good lower	27	47	41	81	196
Watch	291	23	19	29	362
Vulnerable	548	83	215	172	1,018
Total	869	156	275	283	1,583
Total impaired	3,293	362	1,803	872	6,330
Total gross loans and advances	33,720	3,122	8,820	17,676	63,338
Specific provisions	(1,135)	(203)	(914)	(470)	(2,722)
IBNR provisions	(283)	(43)	(150)	(147)	(623)
Total provisions for impairment	(1,418)	(246)	(1,064)	(617)	(3,345)
Gross loans and advances to customers less provisions	32,302	2,876	7,756	17,059	59,993

Internal credit ratings of contingent liabilities and commitments

The credit ratings of contingent liabilities and commitments are set out in the following table. The Group revised its internal credit rating methodology with the implementation of IFRS 9, accordingly, the ratings profile at 31 December 2018 has been prepared on this basis. Comparative data for 31 December 2017 has been prepared on the basis of the methodology in place at that time.

	2018* € m
Strong	**8,713**
Satisfactory	**2,721**
Criticised watch	**255**
Criticised recovery	**15**
Default	**183**
Total	**11,887**

	2017* € m
Good upper	4,228
Good lower	6,389
Watch	90
Vulnerable	250
Impaired	154
	11,111

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Summary of movements on ECL allowances*

The following table sets out the movements on the ECL allowance on loans and advances to customers at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39 and shows the movements on impairment provisions.

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

[1]Further details of the impact of adopting IFRS 9 at 1 January 2018 are set out in note 3 to the consolidated financial statements.

[2]For a geographical and sectoral analysis of write-offs, see page 108.

	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	2017 Total € m
At 1 January	2,002	290	1,449	848	4,589
Exchange translation adjustments	(9)	(1)	(12)	(4)	(26)
(Credit)/charge to income statement – customers	(101)	(2)	(50)	40	(113)
Amounts written-off	(286)	(30)	(190)	(210)	(716)
Disposals	(190)	(11)	(134)	(69)	(404)
Recoveries of amounts written-off in previous years	2	–	1	12	15
At 31 December 2017	1,418	246	1,064	617	3,345
Total provisions are split as follows:					
Specific	1,135	203	914	470	2,722
IBNR	283	43	150	147	623
	1,418	246	1,064	617	3,345

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

The following table sets out the concentration of credit by industry sector and geography for loans and advances to customers together with loan commitments and financial guarantees issued analysed by the ECL profile at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

Exposures to customers*

									2018
	At amortised cost								At FVTPL
	Gross carrying amount			Analysed by ECL profile					
Concentration by 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
Agriculture	1,836	556	2,392	2,018	196	178	–	2,392	–
Energy	983	609	1,592	1,547	31	14	–	1,592	–
Manufacturing	2,934	1,227	4,161	3,947	152	62	–	4,161	–
Property and construction	7,804	1,528	9,332	7,602	460	1,268	2	9,332	147
Distribution	5,518	1,298	6,816	5,879	450	487	–	6,816	–
Transport	1,779	414	2,193	2,099	73	21	–	2,193	–
Financial	595	303	898	836	28	34	–	898	–
Other services	5,921	2,450	8,371	7,856	261	254	–	8,371	–
Personal: Residential mortgages	32,315	356	32,671	25,940	3,450	3,047	234	32,671	–
Other	3,075	3,146	6,221	5,347	516	358	–	6,221	–
Total	62,760	11,887	74,647	63,071	5,617	5,723	236	74,647	147
Concentration by location[1]									
Republic of Ireland	48,530	8,496	57,026	46,635	4,899	5,258	234	57,026	147
United Kingdom	8,864	2,441	11,305	10,269	659	376	1	11,305	–
North America	3,036	94	3,130	3,125	2	3	–	3,130	–
Rest of the World	2,330	856	3,186	3,042	57	86	1	3,186	–
	62,760	11,887	74,647	63,071	5,617	5,723	236	74,647	147

The following table sets out the ECL allowance by industry sector and geography on loans and advances to customers together with loan commitments and financial guarantee contracts analysed by the ECL profile at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

								2018
	ECL allowance			Analysed by ECL profile				
Concentration by 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
Agriculture	77	2	79	14	20	45	–	79
Energy	14	1	15	4	5	6	–	15
Manufacturing	49	4	53	8	16	29	–	53
Property and construction	480	30	510	43	39	428	–	510
Distribution	283	8	291	48	64	179	–	291
Transport	17	–	17	5	4	8	–	17
Financial	12	–	12	2	2	8	–	12
Other services	141	7	148	21	31	96	–	148
Personal: Residential mortgages	713	–	713	8	51	623	31	713
Other	253	6	259	32	54	173	–	259
Total	2,039	58	2,097	185	286	1,595	31	2,097
Concentration by location[1]								
Republic of Ireland	1,787	47	1,834	150	240	1,413	31	1,834
United Kingdom	208	10	218	29	44	145	–	218
North America	2	–	2	2	–	–	–	2
Rest of the World	42	1	43	4	2	37	–	43
	2,039	58	2,097	185	286	1,595	31	2,097

[1]Based on country of risk.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

The following table, prepared under IAS 39, sets out loans and advances to customers by industry sector and geography at 31 December 2017:

				2017*
	Total loans and advances to customers € m	%	Of which: impaired € m	Specific provisions for impairment € m
Agriculture	1,818	2.9	101	32
Energy	717	1.1	36	12
Manufacturing	2,390	3.8	60	49
Property and construction	8,820	13.9	1,803	914
Distribution	5,547	8.7	417	211
Transport	1,352	2.1	14	8
Financial	478	0.8	14	11
Other services	5,374	8.5	230	147
Personal:				
Residential mortgages	33,720	53.3	3,293	1,135
Other	3,122	4.9	362	203
Total	63,338	100.0	6,330	2,722
Analysed as to:				
Neither past due nor impaired	55,425			
Past due but not impaired	1,583			
Impaired – provisions held	6,330			
	63,338			
Provisions for impairment:				
Specific	(2,722)			
IBNR	(623)			
	(3,345)			
Total statement of financial position	59,993			

Concentration by location[1]	Total loans and advances to customers € m	Of which impaired € m	Specific provisions for impairment € m
Republic of Ireland	50,737	5,799	2,437
United Kingdom	9,006	464	246
Rest of the World	3,595	67	39
	63,338	6,330	2,722

[1]Based on country of risk.

Off-balance sheet exposures

The following table sets out the geographic concentration of off-balance sheet exposures at 31 December 2017*:

Concentration by location	Contingent liabilities € m	Commitments € m
Republic of Ireland	607	8,619
United Kingdom	184	1,612
United States of America	89	–
Total	880	10,231

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the total loan portfolio by segment

The following table analyses loans and advances to customers by segment for the year ended 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39 and the analysis of the asset quality uses the definitions in operation during 2017 which are set out on page 77.

	2018					2017				
	RCB	WIB	AIB UK	Group	Total	RCB	WIB	AIB UK	Group	Total
At amortised cost	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Residential mortgages:										
Owner-occupier	27,839	2	1,228	–	29,069	28,332	5	1,327	–	29,664
Buy-to-let	3,120	19	107	–	3,246	3,840	23	193	–	4,056
	30,959	21	1,335	–	32,315	32,172	28	1,520	–	33,720
Other personal	2,879	29	147	20	3,075	2,888	43	186	5	3,122
Property and construction	2,095	3,527	2,182	–	7,804	3,448	3,048	2,324	–	8,820
Non-property business	5,547	9,092	4,847	80	19,566	5,927	7,203	4,493	53	17,676
Total at amortised cost	41,480	12,669	8,511	100	62,760	44,435	10,322	8,523	58	63,338
Analysed by ECL staging										
Stage 1	31,651	12,379	7,564	99	51,693					
Stage 2	4,513	207	570	–	5,290					
Stage 3	5,080	83	377	1	5,541					
POCI	236	–	–	–	236					
Analysed as to asset quality										
Satisfactory						31,570	9,938	7,421	58	48,987
Watch						1,691	12	332	–	2,035
Vulnerable						5,277	364	345	–	5,986
Impaired						5,897	8	425	–	6,330
Total criticised loans						12,865	384	1,102	–	14,351
Loss allowance – statement of financial position	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Stage 1	119	25	27	–	171					
Stage 2	221	12	38	–	271					
Stage 3	1,411	12	143	–	1,566					
POCI	31	–	–	–	31					
Specific provisions						2,488	2	232	–	2,722
IBNR provisions						525	45	53	–	623
Total loss allowance	1,782	49	208	–	2,039	3,013	47	285	–	3,345
Loss allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	–	–	–	–	–					
Stage 2	5	6	7	–	5					
Stage 3	28	14	38	–	28					
POCI	13	–	–	–	13					
Specific provisions/impaired loans						42	25	55	–	43
Total provisions/impaired loans						51	588	67	–	53
Total provisions/total loans						7	–	3	–	5
Income statement – credit impairment (writeback)/losses	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net remeasurement of loss allowance	(123)	16	17	1	(89)					
Recoveries of amounts previously written-off	(116)	–	(4)	–	(120)					
Specific						(206)	(10)	17	–	(199)
IBNR						73	12	1	–	86
Net credit impairment (writeback)/losses	(239)	16	13	1	(209)	(133)	2	18	–	(113)
	%	%	%	%	%	%	%	%	%	%
Impairment (credit)/charge/average loans	(0.56)	0.14	0.15	0.93	(0.33)	(0.29)	0.02	0.20	–	(0.18)

3.1 Credit risk – Credit profile of the loan portfolio

The following summarises the key points affecting the credit profile of the loan portfolio at 31 December 2018:

- The Group is predominantly Republic of Ireland and United Kingdom focused where most sectors continue to experience buoyant trading conditions due to the favourable economic environment. The Group has material concentrations in residential mortgages (51% of gross loans) and property and construction (13% of gross loans). Furthermore, the non-property business lending book is 31% of gross loans and is spread across a number of sub-sectors. The remaining 5% is in the personal book.
- New term lending increased by 13% to € 10.7 billion in the 12 months to 31 December 2018 (31 December 2017: € 9.4 billion) and is spread across most sectors and includes € 2.8 billion mortgage and € 2.1 billion non-mortgage in RCB, € 4.0 billion in WIB and € 1.8 billion in AIB UK.
- Continued progress in working to reduce the level of non-performing loans resulted in the quantum of defaulted loans reducing by € 4.1 billion in the 12 months to 31 December 2018 (a decrease of 41%). The reduction was impacted by redemptions and repayments from customers of € 1.3 billion, as well as a € 1.1 billion reduction due to restructuring activity / write-offs (including non-contracted write-offs and other movements) and by sales of portfolios of distressed loans that were defaulted of € 1.1 billion. There was also a reduction of € 0.6 billion due to the implementation of a new definition of default policy.
- At 31 December 2018, 83% of the total loans to customers' portfolio is considered as either strong or satisfactory. The strong/ satisfactory portfolio is typically where new business is written, and which would also be impacted by cases upgrading out of criticised due to improved performance.
- There was a total net credit impairment writeback of € 204 million in the 12 months to 31 December 2018. This comprised a net credit impairment writeback of € 209 million on loans and advances to customers, a € 6 million ECL allowance for off-balance sheet loan commitments and financial guarantee contracts and a € 1 million writeback on loans and advances to banks.

Restructuring

Restructuring the loans of customers in difficulty continues to be a key focus for the Group. Customer treatment strategies have been developed for customers who are experiencing financial difficulties. The approach is one of structured engagement with co-operating customers to assess their long term levels of sustainable debt.

The reduction in non-performing loans in recent years was largely achieved through case by case restructuring and working with customers to right size sustainable debt based on customer affordability alongside a strategic deleveraging initiative where appropriate.

For mortgage customers in difficulty, the core objective is to ensure that arrears solutions are sustainable in the long term and that they comply with the spirit and the letter of all regulatory requirements.

A non-retail customer in difficulty typically has exposures across a number of asset classes, including owner-occupier and buy-to-let mortgages, SME debt and property exposures. The aim is to apply the treatment strategies at a customer level to deliver a holistic solution which prioritises mortgages and viable SME debt. Each case requires an in-depth review of cash flows and security, updated for current valuations and business performance. This process may result in writebacks or top-ups of expected credit losses across asset classes or for the customer as a whole. Write-offs may also be a feature of this process.

Non-performing loans have continued to reduce and in the 12 months to 31 December 2018 decreased by € 4.1 billion (41%).

When the prospects of recovering a loan, either partially or fully, do not improve, a point will come when it will be concluded that as there is no realistic prospect of recovery, the loan (and any related ECL allowance) will be written-off. Where the loan is secured, the write-off will take account of receipt of the net realisable value of the security held. Partial write-offs, including non-contracted write-offs, may also occur when it is considered that there is no prospect for the recovery of the expected credit loss amount, for example when a loan enters a legal process. The reduced loan balance remains on the balance sheet as non-performing. In addition, write-offs may reflect restructuring activity with customers who are subject to the terms of the revised agreement and subsequent satisfactory performance.

In the 12 months to 31 December 2018, write-offs totalled € 1,029 million (12 months to 31 December 2017: € 716 million).

Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

Residential mortgages

At 31 December 2018, residential mortgages accounted for 51% of gross loans and advances to customers (€ 32.3 billion), with the majority of the loans mainly located in the Republic of Ireland 96% (see page 110) and the remainder in the United Kingdom (see page 113). The portfolio consists of 90% owner-occupier and 10% buy-to-let loans. Total loans in arrears by value decreased by 31% in the 12 months to 31 December 2018, a decrease of 27% in the owner-occupier portfolio and a decrease of 41% in the buy-to-let portfolio in the period. These decreases in the level of arrears can be mainly attributed to non-contracted write-offs in the period (€ 0.5 billion), restructuring activity and favourable economic conditions, which resulted in accounts returning to payment. The buy-to-let portfolio decrease was also impacted by the disposal of c. € 0.2 billion of buy-to-let mortgages as part of the sale of a portfolio of distressed loans.

Further detailed disclosures in relation to the Republic of Ireland mortgage portfolio are provided on pages 110 to 112 and pages 128 to 130 and the United Kingdom mortgage portfolio on pages 113 to 115 and pages 131 to 133.

Other personal lending

At 31 December 2018, the other personal portfolio amounted to € 3.1 billion (5% of gross loans and advances to customers). 94% of loans relate to RCB, with 5% in AIB UK and the remainder of loans of 1% in WIB. The portfolio comprises € 2.3 billion in loans and overdrafts and € 0.8 billion in credit card facilities. The demand for personal loans remains strong and is due to both the improved economic environment and the expanded service offering, including increased online approval through internet and mobile credit application activity.

Further detailed disclosures in relation to the other personal portfolio are provided on page 116.

Property and construction

At 31 December 2018, the property and construction portfolio amounted to € 7.9 billion (13% of gross loans and advances to customers). 46% of loans relate to WIB, 27% in AIB UK and the remaining 27% in RCB. The portfolio is comprised of 78% investment loans (€ 6.2 billion), 14% land and development loans (€ 1.1 billion) and 8% other property and construction loans (€ 0.6 billion).

Overall, the portfolio reduced by € 0.9 billion or 11% in the 12 months to 31 December 2018. The reduction is due primarily to the continuing impact of restructuring, write-offs, amortisations and repayments resulting from asset disposals by customers which were offset by new business written of c. € 1.6 billion.

Further detailed disclosures in relation to the property and construction portfolio are provided on pages 117 and 118.

Non-property business

At 31 December 2018, the non-property business portfolio amounted to € 19.6 billion (31% of gross loans and advances to customers). 46% of loans relate to WIB, 28% to RCB, 25% to AIB UK and the remaining 1% to Group. The portfolio is concentrated in sub-sectors which are reliant on the respective domestic economies. It also includes corporate and syndicated and international lending exposures, some of which are dependent on international markets. Key sub-sectors include agriculture (9% of the portfolio), hotels (10% of the portfolio), licensed premises (3% of the portfolio), retail/wholesale (12% of the portfolio) and other services (30% of the portfolio).
At 31 December 2018, 89% of this portfolio is in a strong or satisfactory grade.

Further detailed disclosures in relation to the non-property business portfolio are provided on pages 119 and 120.

ECL allowance – statement of financial position

Under IAS 39, the Group had total impairment provisions of € 3,345 million at 31 December 2017 of which € 2,722 million were specific provisions and € 623 million were IBNR. Upon implementation of IFRS 9 at 1 January 2018 and the introduction of the ECL model, the Group required an ECL allowance on loans and advances to customers of € 3,616 million resulting in an increase of € 271 million to the closing stock of provisions at 31 December 2017.

The total ECL cover rate has decreased from 5.7% at 1 January 2018 to 3.2% at 31 December 2018, and was primarily driven by non-contracted write-offs in the period, a portfolio sale of distressed loans which had a higher ECL cover and releases in ECL cover as a result of increased security value and improved business cash flows.

3.1 Credit risk – Credit profile of the loan portfolio

Gross loans[1] and ECL movements*

The following table explains the changes in loans and advances to customers at amortised cost by ECL staging together with related ECL allowance between 1 January 2018 and 31 December 2018.

Following the implementation of a new definition of default, which aligns to Stage 3 in IFRS 9 and EBA guidelines, the non-performing exposures ("NPE") stock was revised from € 10,194 million at 31 December 2017 to € 9,612 million at 1 January 2018 on transition to IFRS 9 with the impact reflected in the opening staging position.

During 2018, the Group continued to develop and enhance its IFRS 9 ECL modelling methodologies and processes. This includes recalibration and enhancement to take account of updated observed outcomes as well as the full embedding of the definition of default.

The results of such recalibrations and model enhancements are reported in 'other movements' below. The movement from Stage 2 to Stage 1 is primarily due to model changes noted above as well as adjustments related to SICR sensitivity where no change in credit quality occurred. The € 500 million movement from Stage 3 is mainly due to the embedding of the definition of default as well as IFRS 9 process improvements.

					2018
	Gross carrying amount				
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
At 1 January	46,021	7,912	9,011	238	63,182
Transferred from Stage 1 to Stage 2	(2,777)	2,777	–	–	–
Transferred from Stage 2 to Stage 1	2,833	(2,833)	–	–	–
Transferred to Stage 3	(302)	(658)	960	–	–
Transferred from Stage 3	129	648	(777)	–	–
Other changes in net exposures	2,393	(1,543)	(1,251)	–	(401)
Write-offs	–	–	(1,029)	–	(1,029)
Derecognised due to disposals	(3)	(21)	(1,013)	–	(1,037)
Interest applied to accounts	1,503	231	140	–	1,874
Exchange translation adjustments	78	(12)	–	–	66
Other movements	1,818	(1,211)	(500)	(2)	105
At 31 December	51,693	5,290	5,541	236	62,760

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

					2018
	ECL allowance				
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
At 1 January	156	303	3,136	21	3,616
Net remeasurement of ECL allowance – income statement	18	(23)	(99)	15	(89)
Exchange translation adjustments	–	–	(1)	–	(1)
Other movements with no income statement impact:					
Changes in ECL allowance due to write-offs	–	–	(1,029)	–	(1,029)
Changes in ECL allowance due to disposals	(1)	(2)	(469)	–	(472)
Transfer in	(2)	(7)	28	(5)	14
At 31 December	171	271	1,566	31	2,039

Total exposures to which an ECL applies decreased during the period by € 0.4 billion from € 63.2 billion as at 1 January 2018 to € 62.8 billion as at 31 December 2018.

Stage transfers are a key component of ECL allowance movements with the net remeasurement cost of moving to a higher stage (i.e. Stage 1 to Stage 2 to Stage 3) being the primary driver of a higher income statement charge (and vice versa).

Transfers from Stage 1 to Stage 2 of € 2.7 billion represent the underlying credit activity where a significant increase in credit risk occurred at some point during the year through either the quantitative or qualitative criteria for stage movement. The main driver of the movements to Stage 2 was due to the doubling of PDs, subject to 50bps, mainly in the mortgage portfolio. These movements have materially resulted in exposures starting and ending in different stages due to an observed increase in credit risk, however, given the movements represent the cumulative month by month impact, movements to Stage 2 also include those loans that may have subsequently transferred back to Stage 1 (and included in the € 2.8 billion as outlined below) or further deteriorated to Stage 3 by the end of 2018.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Gross loans[1] and ECL movements *(continued)**

Similarly, transfers from Stage 2 to Stage 1 of € 2.8 billion represent those loans where the triggers for significant increase in credit risk no longer apply or loans that have fulfilled a probation period. These transfers include loans which have been upgraded through normal credit management process.

Transfers from Stage 2 to Stage 3 of € 0.7 billion represent those loans that defaulted during the year. These arose in cases where it was determined that the customers were unlikely to pay their credit obligations in full without the realisation of collateral regardless of the existence of any past due amount or the number of days past due. In addition, transfers also include all credit obligors that are 90 days or more past due on a material obligation.

Transfers from Stage 3 to Stage 2 of € 0.7 billion were driven by resolution activity with the customer, through either restructuring or forbearance, who had subsequently adhered to default probation requirements. As part of the credit management practices, active monitoring of loans and their adherence to default probation requirements is in place. Transfers from Stage 3 to Stage 1 of € 0.1 billion primarily reflect curing events from default and loans which were fundamentally restructured in the period and which met derecognition criteria.

The caption 'Other changes in net exposures', which contributed € 0.4 billion to the reduction in exposures, consists of term and transactional lending offset by cash repayments. This includes € 10.7 billion in new term lending which originates in Stage 1. Transaction lending and repayments are a feature across all stages.

Write-offs represent the write down of the gross loan balance by the relevant ECL allowance in accordance with the accounting policy. Write-offs due to restructuring activity are also included in this amount.

Any impact of 'other movements' on the ECL allowance is included in the individual stages under 'net remeasurement of ECL allowance – income statement'. Given the average cover rate on these loans on 1 January 2018 was materially lower than other Stage 3 loans, the associated net ECL reduction is an estimated € 25 million.

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

Stage 1 loans increased by € 5.7 billion during 2018 with an ECL of € 0.2 billion and resulting cover of 0.3%. This was primarily on foot on net new lending and loans curing to Stage 1.

Stage 2 loans decreased by € 2.6 billion during 2018 with an ECL of € 0.3 billion and resulting cover of 5%. This was due to model recalibration and enhancements to the Stage 2 criteria.

Stage 3 exposures decreased by € 3.5 billion during 2018 with the ECL cover reducing from 35% to 28%. Key drivers were the level of deleveraging activity, portfolio sales and write-off activity of loans with higher ECLs.

*Forms an integral part of the audited financial statements

3.1 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 asset quality and segment at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39 for non-impaired arrears.

At amortised cost

							2018*
Industry sector	**1–30 days € m**	**31–60 days € m**	**61–90 days € m**	**91–180 days € m**	**181–365 days € m**	**> 365 days € m**	**Total € m**
Agriculture	36	5	4	10	11	81	147
Energy	–	2	–	–	3	8	13
Manufacturing	11	1	1	3	3	21	40
Property and construction	75	20	21	32	51	532	731
Distribution	66	8	6	9	25	193	307
Transport	4	1	1	1	3	8	18
Financial	2	–	–	–	–	3	5
Other services	23	4	3	8	16	105	159
Personal:							
Residential mortgages	463	136	112	154	195	1,426	2,486
Credit cards	21	4	3	6	17	–	51
Other	52	13	15	19	31	156	286
Total gross carrying amount	753	194	166	242	355	2,533	4,243
Asset quality							
Stage 1	221	–	–	–	–	–	221
Stage 2	323	79	37	–	–	–	439
Stage 3	191	110	127	237	349	2,510	3,524
POCI	18	5	2	5	6	23	59
	753	194	166	242	355	2,533	4,243
Segment							
RCB	680	169	152	230	331	2,354	3,916
WIB	35	–	–	–	–	–	35
AIB UK	38	25	14	12	24	179	292
Group	–	–	–	–	–	–	–
	753	194	166	242	355	2,533	4,243
	%	%	%	%	%	%	%
As a percentage of total gross loans at amortised cost	1.20	0.31	0.26	0.39	0.56	4.04	6.76

At FVTPL

Industry sector	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Property and construction	–	–	–	–	–	2	2
Total at FVTPL	–	–	–	–	–	2	2
Segment	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
RCB	–	–	–	–	–	2	2
	–	–	–	–	–	2	2
	%	%	%	%	%	%	%
As a percentage of total loans at FVTPL	–	0.13	–	–	–	1.31	1.44

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

At 31 December 2018, total loans past due reduced by € 2.5 billion to € 4.2 billion or 6.8% of total loans and advances to customers (31 December 2017: € 6.7 billion or 10.6%).

Residential mortgage loans which were past due at 31 December 2018, amounted to € 2.5 billion. This represents 59% of total loans which were past due (31 December 2017: € 3.6 billion or 53%). The level of residential mortgage loans in early arrears (less than 30 days) continues to decrease which is due to active management of early arrears cases and the favourable economic environment.

Property and construction loans which were past due represent 17% or € 0.7 billion of total loans which were past due (31 December 2017: 27% or € 1.8 billion), with non-property business at 16% or € 0.7 billion (31 December 2017: 13% or € 0.9 billion) and other personal at 8% or € 0.3 billion (31 December 2017: 7% or € 0.4 billion).

All loans past due by 90 days or more on any material obligation are considered non-performing/defaulted.

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Aged analysis of contractually past due but not impaired gross loans and advances to customers*

							2017
Industry sector	1–30 days € m	31–60 days € m	61–90 days € m	91–180 days € m	181–365 days € m	> 365 days € m	Total € m
Agriculture	29	10	2	5	8	24	78
Energy	1	4	–	–	–	2	7
Manufacturing	13	1	1	1	1	2	19
Property and construction	94	28	12	32	32	77	275
Distribution	52	4	4	5	10	19	94
Transport	3	–	–	2	–	–	5
Financial	1	–	–	–	–	–	1
Other services	27	6	3	6	3	34	79
Personal:							
Residential mortgages	453	114	56	49	52	145	869
Credit cards	24	5	3	–	–	–	32
Other	55	14	8	7	16	24	124
	752	186	89	107	122	327	1,583
Segment							
RCB	688	163	78	89	117	314	1,449
WIB	6	2	–	1	–	4	13
AIB UK	58	21	11	17	5	8	120
Group	–	–	–	–	–	1	1
	752	186	89	107	122	327	1,583
As a percentage of	%	%	%	%	%	%	%
total gross loans	1.19	0.29	0.14	0.17	0.19	0.52	2.50

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

*Forms an integral part of the audited financial statements

3.1 Credit risk – Credit profile of the loan portfolio

Income statement – net credit impairment writeback*

The following table analyses the income statement net credit impairment (writeback)/losses for the year to 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

					2018
Credit impairment (writeback)/losses on financial instruments	**RCB € m**	**WIB € m**	**AIB UK € m**	**Group € m**	**Total € m**
Net remeasurement of ECL allowance:					
Loans and advances to banks	–	–	–	(1)	(1)
Loans and advances to customers	(123)	16	17	1	(89)
Loan commitments	3	–	6	–	9
Financial guarantee contracts	(5)	–	2	–	(3)
Credit impairment (writeback)/losses	(125)	16	25	–	(84)
Recoveries of amounts previously written-off[1]	(116)	–	(4)	–	(120)
Net credit impairment (writeback)/losses	(241)	16	21	–	(204)
Of which:					
Loans and advances to banks	–	–	–	(1)	(1)
Loans and advances to customers	(239)	16	13	1	(209)
Loan commitments and financial guarantee contracts	(2)	–	8	–	6

					2017
	RCB € m	WIB € m	AIB UK € m	Group € m	Total € m
Specific provisions – Individually significant	(176)	(10)	30	–	(156)
– Individually insignificant	(30)	–	(13)	–	(43)
IBNR	73	12	1	–	86
Total provisions for impairment (credit)/charge on loans and advances to customers	(133)	2	18	–	(113)
Writeback of provisions for liabilities and commitments					(8)
Total					(121)

[1]For a geographical and sectoral analysis, see page 108.

The € 204 million net credit impairment writeback in 2018 comprises a € 89 million writeback on on-balance sheet exposures/loans to customers, recoveries of amounts previously written-off of € 120 million and a € 1 million writeback on loans and advances to banks. These were partly offset by a charge of € 6 million on off-balance sheet exposures.

The writeback of € 89 million, attributable to loans to customers, continues to be driven by loans curing from Stage 3 and trading and asset value improvements associated with general economic environment in Ireland.

Changes in cash flow assumptions, recoveries and repayments have all contributed to writeback activity. Collateral values and uplift in market yields have also contributed to writeback activity observed as part of ongoing restructuring and whilst cases serve probation periods within Stage 3. Writeback is predominantly driven by the commercial real estate and property exposures.

Included in the recovery of amounts previously written-off as outlined above, € 44 million relates to interest previously suspended on impaired loans that has subsequently cured. This was previously classified as release to interest income but which under new accounting guidelines, is recorded as a recovery of amounts previously written-off. The remaining recovery relates to cash received on amounts previously written-off.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.1 Credit risk – Credit profile of the loan portfolio

Loans written-off and recoveries of previously written-off loans

The following table analyses loans written-off and recoveries of previously written-off loans by geography[1] and industry sector for the year ended 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

	Ireland		United Kingdom		Rest of the World		Total	
Loans written-off	**2018 € m**	2017 € m	**2018 € m**	2017 € m	**2018 € m**	2017 € m	**2018 € m**	2017 € m
Agriculture	**19.0**	–	**0.1**	0.1	**–**	–	**19.1**	0.1
Energy	**5.1**	0.9	**5.5**	–	**–**	–	**10.6**	0.9
Manufacturing	**19.8**	5.9	**5.4**	0.5	**–**	–	**25.2**	6.4
Property and construction	**112.0**	127.2	**65.9**	46.3	**–**	16.5	**177.9**	190.0
Distribution	**37.3**	47.6	**9.7**	17.1	**5.8**	11.7	**52.8**	76.4
Transport	**3.2**	25.6	**–**	24.4	**–**	–	**3.2**	50.0
Financial	**0.1**	–	**5.2**	3.0	**1.6**	20.7	**6.9**	23.7
Other services	**83.0**	48.6	**4.9**	–	**19.8**	4.3	**107.7**	52.9
Personal – Residential mortgages	**543.2**	280.1	**15.8**	4.2	**4.5**	1.4	**563.5**	285.7
– Other	**56.0**	20.0	**6.2**	9.7	**0.2**	–	**62.4**	29.7
	878.7	555.9	**118.7**	105.3	**31.9**	54.6	**1,029.3**	715.8

	Ireland		United Kingdom		Rest of the World		Total	
Recoveries of amounts previously written-off	**2018 € m**	2017 € m	**2018 € m**	2017 € m	**2018 € m**	2017 € m	**2018 € m**	2017 € m
Agriculture	**7.4**	0.1	**–**	–	**–**	–	**7.4**	0.1
Energy	**0.7**	–	**–**	–	**–**	0.1	**0.7**	0.1
Manufacturing	**1.7**	–	**–**	–	**–**	–	**1.7**	–
Property and construction	**28.1**	–	**0.9**	0.3	**4.1**	0.2	**33.1**	0.5
Distribution	**10.5**	4.5	**0.4**	0.1	**–**	0.4	**10.9**	5.0
Transport	**0.8**	–	**–**	–	**–**	–	**0.8**	–
Financial	**0.2**	0.8	**–**	–	**–**	–	**0.2**	0.8
Other services	**12.1**	4.0	**2.6**	2.1	**–**	0.4	**14.7**	6.5
Personal – Residential mortgages	**24.2**	1.8	**0.8**	–	**0.2**	–	**25.2**	1.8
– Other	**23.0**	–	**2.6**	–	**–**	–	**25.6**	–
	108.7	11.2	**7.3**	2.5	**4.3**	1.1	**120.3**	14.8

[1]By country of risk

The contractual amount outstanding of loans written-off during the year that are subject to enforcement activity amounted to € 750 million which includes both full and partial write-offs.*

*Forms an integral part of the audited financial statements

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

Loans and advances to customers – Residential mortgages

Residential mortgages amounted to € 32.3 billion at 31 December 2018, with the majority (96%) relating to residential mortgages in the Republic of Ireland and the remainder relating to the United Kingdom. This compares to € 33.7 billion at 31 December 2017, of which 95% related to residential mortgages in the Republic of Ireland. The split of the residential mortgage portfolio was owner-occupier € 29.1 billion and buy-to-let € 3.2 billion (31 December 2017: owner-occupier € 29.7 billion and buy-to-let € 4.0 billion).

At 31 December 2018, a € 0.7 billion ECL allowance was held against the Group's residential mortgages portfolio, or 2.2% total cover rate.

During 2018, there was a net credit impairment writeback of € 84 million to the income statement. This was primarily driven by the Republic of Ireland portfolio with a € 58 million writeback as a result of loans curing from Stage 3 to Stage 2. A further € 24 million of recoveries were observed on loans previously written-off.

Republic of Ireland residential mortgages – pages 110 to 112

- Credit profile
- Actual and weighted average indexed loan-to-value ratios by staging

United Kingdom ("UK") residential mortgages – pages 113 to 115

- Credit profile
- 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.

3.1 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 showing the ECL allowance at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

Residential mortgages at amortised cost

			2018*			2017*
Gross loans and advances to customers	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Total gross carrying amount	**27,841**	**3,139**	**30,980**	28,337	3,863	32,200
Analysed as to ECL staging						
Stage 1	**22,615**	**1,931**	**24,546**			
Stage 2	**2,867**	**446**	**3,313**			
Stage 3	**2,137**	**750**	**2,887**			
POCI	**222**	**12**	**234**			
Analysed by arrears/impaired						
In arrears (>30 days past due)				2,556	1,005	3,561[1]
In arrears (>90 days past due)				2,423	982	3,405[1]
Of which impaired				2,277	888	3,165
ECL allowance - statement of financial position	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Stage 1	**5**	**2**	**7**			
Stage 2	**36**	**13**	**49**			
Stage 3	**451**	**148**	**599**			
POCI	**23**	**8**	**31**			
Specific provisions				793	309	1,102
IBNR provisions				188	90	278
Total ECL allowance	**515**	**171**	**686**	981	399	1,380
Residential mortgages at amortised cost	**27,326**	**2,968**	**30,294**	27,356	3,464	30,820
ECL allowance cover percentage	**%**	**%**	**%**	%	%	%
Stage 1	**–**	**–**	**–**			
Stage 2	**1**	**3**	**1**			
Stage 3	**21**	**20**	**21**			
POCI	**10**	**63**	**13**			
Specific provisions/impaired loans				34.8	34.8	34.8
Income statement credit impairment (writeback)/losses	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Net remeasurement of ECL allowance	**(13)**	**(45)**	**(58)**			
Recoveries of amounts previously written-off	**(16)**	**(8)**	**(24)**			
Specific provisions				(32)	(72)	(104)
IBNR provisions				29	(17)	12
Net credit impairment (writeback)	**(29)**	**(53)**	**(82)**	(3)	(89)	(92)
Net credit impairment (writeback)/ on average loans	**% (0.10)**	**% (1.52)**	**% (0.26)**			

[1]Includes all impaired loans whether past due or not.

*Forms an integral part of the audited financial statements

3.1 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 the Republic of Ireland amounted to € 31 billion at 31 December 2018 compared to € 32.2 billion at 31 December 2017. The decrease in the portfolio was primarily due to loan repayments and disposals, offset by new lending in the 12 months to 31 December 2018. Total drawdowns in the 12 months to 31 December 2018 were € 2.8 billion, of which 96% related to owner-occupier, whilst the weighted average indexed loan-to-value for new residential mortgages was 70%. New lending in the 12 months to 31 December 2018 increased by 16% on the comparable period in 2017 driven by the favourable macroeconomic conditions.

The split of the residential mortgage portfolio is 90% owner-occupier and 10% buy-to-let and comprises 30% tracker rate, 56% variable rate and 14% fixed rate mortgages.

Non-performing loans decreased from € 4.4 billion at 31 December 2017 to € 3.1 billion at 31 December 2018, impacted by the sale of a portfolio of distressed mortgages (€ 0.2 billion) in the period and also partly due to restructuring, write-offs, repayments and redemptions.

Residential mortgage arrears

Total loans in arrears (including non-performing loans) by value decreased by 29% during the 12 months to 31 December 2018, a decrease of 25% in the owner-occupier portfolio and a decrease of 35% in the buy-to-let portfolio.

The number of loans in arrears (based on number of accounts) greater than 90 days was 5.3% at 31 December 2018 and remains below the industry average of 7.4%[(1)]. For the owner-occupier portfolio, loans in arrears greater than 90 days at 4.5% were below the industry average of 6.2%. For the buy-to-let portfolio, loans in arrears greater than 90 days at 12.1% were below the industry average of 14.7%.

Forbearance

Residential mortgages subject to forbearance measures decreased by € 1.1 billion from 31 December 2017 to € 3.6 billion at 31 December 2018, compared to a decrease of € 1.2 billion in the 12 months to 31 December 2017. A key feature of the forbearance portfolio is the level of advanced forbearance solutions (split mortgages, low fixed interest rate, voluntary sale for loss, negative equity trade down and positive equity solutions) driven by the Group's strategy to deliver sustainable long-term solutions to customers and support customers in remaining in their family home.

Details of forbearance measures are set out on pages 134 to 144.

Income statement

There was a net credit impairment writeback of € 82 million to the income statement in the year to 31 December 2018, as a result of loans curing from Stage 3 and also recoveries of € 24 million on loans previously written-off.

[(1)]Source: Central Bank of Ireland ("CBI") Residential Mortgage Arrears and Repossessions Statistics as at 30 September 2018, based on numbers of accounts.

3.1 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 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

2018*

	At amortised cost												Overall total		
	Stage 1			Stage 2			Stage 3			POCI					
	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Less than 50%	8,798	928	9,726	1,083	165	1,248	594	208	802	28	–	28	10,503	1,301	11,804
50% to 70%	7,375	590	7,965	898	127	1,025	474	200	674	74	1	75	8,821	918	9,739
71% to 80%	3,031	165	3,196	340	58	398	220	82	302	39	–	39	3,630	305	3,935
81% to 90%	2,179	98	2,277	257	39	296	197	54	251	30	–	30	2,663	191	2,854
91% to 100%	902	86	988	174	20	194	180	59	239	25	–	25	1,281	165	1,446
101% to 120%	288	33	321	95	20	115	243	52	295	14	–	14	640	105	745
121% to 150%	21	13	34	13	3	16	163	39	202	1	–	1	198	55	253
Greater than 150%	19	16	35	6	12	18	62	38	100	–	–	–	87	66	153
Total with LTVs	22,613	1,929	24,542	2,866	444	3,310	2,133	732	2,865	211	1	212	27,823	3,106	30,929
Unsecured	2	2	4	1	2	3	4	18	22	11	11	22	18	33	51
Total	22,615	1,931	24,546	2,867	446	3,313	2,137	750	2,887	222	12	234	27,841	3,139	30,980

The weighted average indexed loan-to-value of the stock of residential mortgages at the year end was 58%, new residential mortgages issued during the year was 70% and Stage 3 residential mortgages was 74%.

2017*

	Neither past due nor impaired			>90 days past due and/or impaired			<90 days past due and not impaired			Overall total		
	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Less than 50%	8,364	1,010	9,374	381	186	567	143	24	167	8,888	1,220	10,108
50% to 70%	7,853	797	8,650	419	196	615	150	22	172	8,422	1,015	9,437
71% to 80%	3,622	304	3,926	207	105	312	66	9	75	3,895	418	4,313
81% to 90%	2,514	249	2,763	230	91	321	55	8	63	2,799	348	3,147
91% to 100%	1,520	197	1,717	239	91	330	38	6	44	1,797	294	2,091
101% to 120%	1,367	139	1,506	389	125	514	54	6	60	1,810	270	2,080
121% to 150%	115	55	170	337	80	417	11	2	13	463	137	600
Greater than 150%	30	40	70	168	71	239	2	1	3	200	112	312
Total with LTVs	25,385	2,791	28,176	2,370	945	3,315	519	78	597	28,274	3,814	32,088
Unsecured	9	11	20	53	37	90	1	1	2	63	49	112
Total	25,394	2,802	28,196	2,423	982	3,405	520	79	599	28,337	3,863	32,200

The weighted average indexed loan-to-value of the stock of residential mortgages at the year end was 64.2%, new residential mortgages issued during the year was 67.5% and impaired residential mortgages was 91.0%.

*Forms an integral part of the audited financial statements

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

Loans and advances to customers – United Kingdom (“UK”) residential mortgages

The UK mortgage portfolio is predominantly based in Northern Ireland (75% of total) with the remainder located in Great Britain. The portfolio decreased in sterling terms by c. 11% at 31 December 2018. However, due to the impact of currency movements, the portfolio decreased by c. 12% in euro terms.

The following table analyses the UK residential mortgage portfolio showing the ECL allowance at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

Residential mortgages at amortised cost

			2018*			2017*
Gross loans and advances to customers	**Owner-occupier € m**	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Total gross carrying amount	**1,228**	**107**	**1,335**	1,327	193	1,520
Analysed as to ECL staging						
Stage 1	**983**	**88**	**1,071**			
Stage 2	**118**	**10**	**128**			
Stage 3	**127**	**9**	**136**			
POCI	**–**	**–**	**–**			
Analysed by arrears/impaired						
In arrears (>30 days past due)				129	19	148[(1)]
In arrears (>90 days past due)				115	19	134[(1)]
Of which impaired				109	19	128
ECL allowance - statement of financial position	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Stage 1	**1**	**–**	**1**			
Stage 2	**2**	**–**	**2**			
Stage 3	**22**	**2**	**24**			
POCI	**–**	**–**	**–**			
Specific provisions				29	4	33
IBNR provisions				5	–	5
Total ECL allowance	**25**	**2**	**27**	34	4	38
Residential mortgages at amortised cost	**1,203**	**105**	**1,308**	1,293	189	1,482
ECL allowance cover percentage	**%**	**%**	**%**	%	%	%
Stage 1	**–**	**–**	**–**			
Stage 2	**1**	**2**	**1**			
Stage 3	**17**	**28**	**18**			
POCI	**–**	**–**	**–**			
Specific provisions/impaired loans				27.2	19.4	26.1
Income statement credit impairment (writeback)	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Net remeasurement of ECL allowance	**–**	**(1)**	**(1)**			
Recoveries of amounts previously written-off	**(1)**	**–**	**(1)**			
Specific provisions				(6)	(1)	(7)
IBNR provisions				(2)	–	(2)
Net credit impairment (writeback)	**(1)**	**(1)**	**(2)**	(8)	(1)	(9)
Net credit impairment (writeback)/ average loans	**% (0.08)**	**% (0.86)**	**% (0.14)**			

[(1)]Includes all impaired loans whether past due or not.

Total loans in arrears greater than 90 days has reduced to 5% of the total portfolio. This is reflective of the continued focus on deleveraging, combined with early intervention to prevent new cases reaching 90 days past due.

The net credit impairment writeback to the income statement in the year to 31 December 2018 amounted to € 2 million. Stage 3 cover for the UK mortgage portfolio is 18%.

*Forms an integral part of the audited financial statements

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

Loans and advances to customers – United Kingdom (“UK”) residential mortgages *(continued)*

Actual and weighted average indexed loan to value ratios of United Kingdom residential mortgages.

The following table profiles the United Kingdom residential mortgage portfolio by the indexed loan-to-value ratios and the weighted average loan-to-value ratios at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

												2018
	At amortised cost											
	Stage 1			Stage 2			Stage 3			Overall total		
	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Less than 50%	432	29	461	41	1	42	32	1	33	505	31	536
50% to 70%	257	19	276	37	3	40	25	1	26	319	23	342
71% to 80%	90	14	104	16	2	18	9	1	10	115	17	132
81% to 90%	90	10	100	8	1	9	11	1	12	109	12	121
91% to 100%	49	10	59	8	1	9	15	1	16	72	12	84
101% to 120%	51	5	56	5	2	7	12	1	13	68	8	76
121% to 150%	13	1	14	2	–	2	8	1	9	23	2	25
Greater than 150%	1	–	1	1	–	1	8	1	9	10	1	11
Total with LTVs	983	88	1,071	118	10	128	120	8	128	1,221	106	1,327
Unsecured	–	–	–	–	–	–	7	1	8	7	1	8
Total	983	88	1,071	118	10	128	127	9	136	1,228	107	1,335

The weighted average indexed loan-to-value of the stock of residential mortgages at the year end was 60%, new residential mortgages issued during the year was 71% and Stage 3 residential mortgages was 84%.

												2017
	Neither past due nor impaired			>90 days past due and/or impaired			<90 days past due and not impaired			Overall total		
	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Less than 50%	470	56	526	21	2	23	13	–	13	504	58	562
50% to 70%	307	34	341	21	1	22	2	1	3	330	36	366
71% to 80%	124	24	148	12	1	13	1	–	1	137	25	162
81% to 90%	99	14	113	6	2	8	2	–	2	107	16	123
91% to 100%	67	16	83	13	1	14	3	–	3	83	17	100
101% to 120%	75	23	98	12	2	14	1	–	1	88	25	113
121% to 150%	36	5	41	11	3	14	–	–	–	47	8	55
Greater than 150%	11	1	12	13	6	19	1	–	1	25	7	32
Total with LTVs	1,189	173	1,362	109	18	127	23	1	24	1,321	192	1,513
Unsecured	–	–	–	6	1	7	–	–	–	6	1	7
Total	1,189	173	1,362	115	19	134	23	1	24	1,327	193	1,520

The weighted average indexed loan-to-value of the stock of residential mortgages at the year end was 64.8%, new residential mortgages issued during the year was 77.9% and impaired residential mortgages was 99.5%.

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

Loans and advances to customers – United Kingdom (“UK”) residential mortgages

Actual and weighted average indexed loan to value ratios of United Kingdom residential mortgages.

8% of the total owner-occupier and 10% of the total buy-to-let mortgages were in negative equity at 31 December 2018 (excluding unsecured), compared to 12% and 21% respectively at 31 December 2017, impacted by a sustained increase in house prices, amortisation of the loan portfolio, low interest rates and continuing modest economic growth, despite Brexit uncertainties. The weighted average indexed loan-to-value for the total residential mortgage portfolio was 60% at 31 December 2018 compared to 64.8% at 31 December 2017, again, reflecting the increase in residential property prices and overall modestly improved domestic economic factors, in conjunction with new lending volumes and the continued deleveraging of non-performing mortgages.

Risk management – 3. Individual risk types

3.1 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 by segment showing asset quality and the loss allowance at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39 and the analysis of the asset quality uses the definitions in operation during 2017 which are set out on page 77.

					2018*					2017*
Gross loans and advances to customers	**RCB € m**	**WIB € m**	**AIB UK € m**	**Group € m**	**Total € m**	RCB € m	WIB € m	AIB UK € m	Group € m	Total € m
Total gross carrying amount	**2,879**	**29**	**147**	**20**	**3,075**	2,888	43	186	5	3,122
Analysed as to ECL staging										
Stage 1	**2,176**	**28**	**110**	**20**	**2,334**					
Stage 2	**368**	**1**	**29**	**–**	**398**					
Stage 3	**335**	**–**	**8**	**–**	**343**					
Analysed as to asset quality										
Satisfactory						2,203	42	162	5	2,412
Watch						87	–	5	–	92
Vulnerable						249	1	6	–	256
Impaired						349	–	13	–	362
Total criticised loans						685	1	24	–	710
Loss allowance – statement of financial position	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m	€ m
Stage 1	**28**	**–**	**1**	**–**	**29**					
Stage 2	**51**	**–**	**1**	**–**	**52**					
Stage 3	**167**	**–**	**5**	**–**	**172**					
Specific provisions						190	–	13	–	203
IBNR provisions						40	–	3	–	43
Total loss allowance	**246**	**–**	**7**	**–**	**253**	230	–	16	–	246
Loss allowance cover percentage	**%**	**%**	**%**	**%**	**%**	%	%	%	%	%
Stage 1	**1**	**–**	**1**	**–**	**1**					
Stage 2	**14**	**4**	**5**	**–**	**13**					
Stage 3	**50**	**–**	**64**	**–**	**50**					
Specific provisions/impaired loans						54	–	100	–	56
Total provisions/impaired loans						66	–	123	–	68
Total provisions/total loans						8	–	9	–	8
Income statement – credit impairment (writeback)/losses	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m	€ m
Net remeasurement of loss allowance	**10**	**–**	**3**	**–**	**13**					
Recoveries of amounts previously written-off	**(24)**	**–**	**(2)**	**–**	**(26)**					
Specific						(8)	–	(1)	–	(9)
IBNR						8	–	(1)	–	7
Net credit impairment (writeback)/losses	**(14)**	**–**	**1**	**–**	**(13)**	–	–	(2)	–	(2)
	%	**%**	**%**	**%**	**%**	%	%	%	%	%
Net credit impairment (writeback)/losses on average loans	**(0.49)**	**–**	**0.64**	**–**	**(0.42)**	(0.01)	–	(0.83)	–	(0.07)

The other personal lending portfolio of € 3.1 billion comprises € 2.3 billion in loans and overdrafts and € 0.8 billion in credit card facilities. The credit quality of the portfolio remains strong. 20% is categorised as less than satisfactory, of which defaulted loans amounted to € 0.4 billion.

The demand for personal loans remains strong which is due to the favourable economic environment and AIB's service offering, especially increased online approval through internet and mobile credit application activity. The level of new lending at € 0.9 billion in 2018 remains consistent with the level of new lending experienced in 2017.

At 31 December 2018, the loss allowance cover was 8% with Stage 3 cover at 50%.

The net credit impairment writeback in the income statement amounted to € 13 million in the year to 31 December 2018.

*Forms an integral part of the audited financial statements

3.1 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 by segment at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39 and the analysis of the asset quality uses the definitions in operation during 2017 which are set out on page 77.

				2018*				2017*
Gross loans and advances to customers	**RCB € m**	**WIB € m**	**AIB UK € m**	**Total € m**	RCB € m	WIB € m	AIB UK € m	Total € m
Investment:								
Commercial investment	1,277	2,844	823	4,944	2,002	2,375	881	5,258
Residential investment	360	161	627	1,148	571	124	249	944
	1,637	3,005	1,450	6,092	2,573	2,499	1,130	6,202
Land and development:								
Commercial development	160	98	46	304	275	216	427	918
Residential development	194	357	227	778	485	253	223	961
	354	455	273	1,082	760	469	650	1,879
Contractors	104	67	151	322	115	80	287	482
Housing associations	–	–	308	308	–	–	257	257
Total gross carrying amount	2,095	3,527	2,182	7,804	3,448	3,048	2,324	8,820
Analysed as to ECL staging								
Stage 1	869	3,420	1,911	6,200				
Stage 2	255	44	116	415				
Stage 3	969	63	155	1,187				
POCI	2	–	–	2				
Analysed as to asset quality								
Satisfactory					679	2,758	1,932	5,369
Watch					142	–	64	206
Vulnerable					1,052	290	100	1,442
Impaired					1,575	–	228	1,803
Total criticised loans					2,769	290	392	3,451
Loss allowance – statement of financial position	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m
Stage 1	18	16	7	41				
Stage 2	28	3	5	36				
Stage 3	309	7	87	403				
POCI	–	–	–	–				
Specific provisions					761	–	153	914
IBNR provisions					104	26	20	150
Total loss allowance	355	26	99	480	865	26	173	1,064
Loss allowance cover percentage	**%**	**%**	**%**	**%**	%	%	%	%
Stage 1	2	–	–	1				
Stage 2	11	6	4	9				
Stage 3	32	12	56	34				
POCI	8	–	–	8				
Specific provisions/impaired loans					48	–	67	51
Total provisions/impaired loans					55	–	76	59
Total provisions/total loans					25	1	7	12
Income statement – credit impairment (writeback)/losses	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m
Net remeasurement of loss allowance	(80)	(3)	(7)	(90)				
Recoveries of amounts previously written-off	(33)	–	–	(33)				
Specific					(85)	(1)	(14)	(100)
IBNR					26	20	4	50
Net credit impairment (writeback)/ losses	(113)	(3)	(7)	(123)	(59)	19	(10)	(50)[1]
	%	**%**	**%**	**%**	%	%	%	%
Net credit impairment (writeback)/ losses on average loans	(4.26)	(0.09)	(0.31)	(1.50)	(1.55)	0.65	(0.38)	(0.56)

*Forms an integral part of the audited financial statements

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

Loans and advances to customers – Property and construction *(continued)*

In addition to the loans at amortised cost of € 7,804 million, there is also € 147 million of loans measured at FVTPL, giving a total property portfolio of € 7,951 million.

The property and construction sector amounted to 13% of total loans and advances. The portfolio comprised of 78% investment loans (€ 6.2 billion), 14% land and development loans (€ 1.1 billion) and 8% other property and construction loans (€ 0.6 billion). AIB UK accounts for 27% of the total property and construction portfolio.

Overall, the portfolio reduced by € 0.9 billion or 11% during the 12 months to 31 December 2018. This reduction was due principally to the continuing impact of restructuring, and to write-offs, amortisations and repayments, resulting from asset disposals by customers, and by the sale of a portfolio of distressed assets. These reductions were offset by new lending of € 1.6 billion, of which € 1.1 billion is in WIB and is typically to provide senior secured funding within acceptable risk parameters. At 31 December 2018, 74% of the portfolio was in a strong/satisfactory grade.

There was a net credit impairment writeback of € 123 million to the income statement in the year to 31 December 2018. This was driven by writebacks of € 90 million due to increased collateral values, uplift in market yields and business cash flows due to the improved economic environment, mainly in the commercial real estate portfolio. Also included within the writeback of € 123 million was € 33 million due to recovery of loans previously written-off.

Investment

Investment property loans amounted to € 6.2 billion at 31 December 2018 (31 December 2017: € 6.2 billion) of which € 5.1 billion related to commercial investment. € 4.8 billion of the investment property portfolio related to loans for the purchase of property in the Republic of Ireland and € 1.4 billion in the United Kingdom.

There was a net credit impairment writeback of € 94 million to the income statement in the year to 31 December 2018 on the investment property element of the property and construction portfolio.

Land and development

At 31 December 2018, land and development loans amounted to € 1.1 billion (31 December 2017: € 1.9 billion) of which € 0.4 billion related to loans in RCB, € 0.4 billion in WIB and € 0.3 billion in AIB UK.

There was a net credit impairment writeback of € 29 million to the income statement in the year to 31 December 2018.

3.1 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 by segment at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39 and the analysis of the asset quality uses the definitions in operation during 2017 which are set out on page 77.

					2018*					2017*
Gross loans and advances to customers	**RCB €m**	**WIB €m**	**AIB UK €m**	**Group €m**	**Total €m**	RCB €m	WIB €m	AIB UK €m	Group €m	Total €m
Agriculture	1,558	182	96	–	1,836	1,568	168	82	–	1,818
Distribution:										
Hotels	404	991	644	–	2,039	496	915	527	–	1,938
Licensed premises	366	154	141	–	661	401	156	123	–	680
Retail/wholesale	990	972	336	–	2,298	1,071	974	505	–	2,550
Other distribution	123	217	180	–	520	133	135	111	–	379
	1,883	2,334	1,301	–	5,518	2,101	2,180	1,266	–	5,547
Other services	1,242	2,718	1,960	1	5,921	1,380	2,111	1,882	1	5,374
Other	864	3,858	1,490	79	6,291	878	2,744	1,263	52	4,937
Total gross carrying amount	5,547	9,092	4,847	80	19,566	5,927	7,203	4,493	53	17,676
Analysed as to ECL staging										
Stage 1	4,071	8,920	4,472	79	17,542					
Stage 2	584	155	297	–	1,036					
Stage 3	892	17	78	1	988					
Analysed as to asset quality										
Satisfactory						3,658	7,118	4,126	53	14,955
Watch						209	12	192	–	413
Vulnerable						1,252	65	119	–	1,436
Impaired						808	8	56	–	872
Total criticised loans						2,269	85	367	–	2,721
Loss allowance – statement of financial position	**€m**	**€m**	**€m**	**€m**	**€m**	€m	€m	€m	€m	€m
Stage 1	66	9	18	–	93					
Stage 2	93	9	30	–	132					
Stage 3	337	4	27	–	368					
Specific provisions						435	2	33	–	470
IBNR provisions						103	19	25	–	147
Total loss allowance	496	22	75	–	593	538	21	58	–	617
Loss allowance cover percentage	**%**	**%**	**%**	**%**	**%**	%	%	%	%	%
Stage 1	2	–	–	–	1					
Stage 2	16	6	10	–	13					
Stage 3	38	22	35	40	37					
Specific provisions/impaired loans						54	25	59	–	54
Total provisions/impaired loans						67	263	104	–	71
Total provisions/total loans						9	–	1	–	3
Income statement – credit impairment losses/(writeback)	**€m**	**€m**	**€m**	**€m**	**€m**	€m	€m	€m	€m	€m
Net remeasurement of loss allowance	5	19	22	1	47					
Recoveries of amounts previously written-off	(35)	–	(1)	–	(36)					
Specific						(9)	(9)	39	–	21
IBNR						26	(7)	–	–	19
Net credit impairment losses/(writeback)	(30)	19	21	1	11	17	(16)	39	–	40
	%	**%**	**%**	**%**	**%**	%	%	%	%	%
Net credit impairment losses/(writeback) on average loans	(0.52)	0.23	0.46	0.96	0.06	0.28	(0.23)	0.83	0.00	0.23

*Forms an integral part of the audited financial statements

3.1 Credit risk – credit profile of the loan portfolio – Asset class analysis

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

The non-property business portfolio comprises of Small and Medium Enterprises ("SMEs") which are reliant on the domestic economies in which they operate and larger corporate and institutional borrowers which are impacted by global economies. The portfolio increased by 11% (€ 1.9 billion) to € 19.6 billion in the 12 months to 31 December 2018 due to continued demand for credit across all segments resulting in new lending of € 5.4 billion in the same period (31 December 2017: € 4.9 billion). However, this was offset by amortisation, restructuring activity and the sale of a portfolio of distressed assets. The portfolio amounted to 31% of total loans and advances at 31 December 2018. The majority of the portfolio exposure is to Irish borrowers with the UK and USA being the other main geographic concentrations.

Satisfactory loans and advances increased in the 12 months to 31 December 2018, continuing the positive trend experienced in 2017, with new drawdowns exceeding amortisation and repayment coupled with upward grade migration through improved performance. The level of less than satisfactory loans (including defaulted loans) reduced from € 2.9 billion at 31 December 2017 to € 2.2 billion at 31 December 2018, mainly due to a reduction of € 0.6 billion in defaulted loans as a result of restructuring activity.

The following are the key themes within the main sub-sectors of the non-property business portfolio:
– The agriculture sub-sector (9% of the portfolio) is experiencing significant on-farm challenges due to the difficult weather conditions in the 12 months to 31 December 2018, which will result in increasing costs across almost all farms. The Group is proactively encouraging farmers to take action to quantify the impact and determine cash flow requirements;
– The hotels sub-sector comprises 10% of the portfolio. This sector continued to perform well in the 12 months to 31 December 2018, helped by a stronger local economy. There has been a net growth in tourist numbers despite a decline in visitors from the UK. Valuations for hotels have continued to increase, with a number of foreign investors and fund managers competing for a limited number of available properties. There has been a marginal net increase in supply during the 12 months to 31 December 2018, with more significant supply of available rooms expected during 2019 in Dublin, Cork and Galway in order to meet the current high levels of demand;
– The licensed premises sub-sector comprises 3% of the portfolio. This sector continues to perform strongly in areas of high footfall, however, the challenge remains for licensed premises in more rural locations or in small towns where there is a lot of competition;
– The retail/wholesale sub-sector (12% of the portfolio) was broadly stable in the Republic of Ireland during the 12 months to 31 December 2018, with some challenges ahead due to Brexit uncertainty and a growing adoption of online shopping. In the UK, a number of high profile retailers have been impacted by a drop in consumer confidence and disposable income. These headwinds, and similar trends in the US, must be considered when reviewing the sector within the Republic of Ireland, albeit current economic performance is strong and consumer confidence is high;
– The other services sub-sector comprises 30% of the portfolio which includes businesses such as solicitors, accounting, audit, tax, computer services, research and development, consultancy, hospitals, nursing homes and plant and machinery. This sub-sector has continued to perform well in the year to 31 December 2018; and
– The category titled 'Other' totalling € 6.3 billion (32% of the portfolio) includes a broad range of sub-sectors such as energy, manufacturing, transport and financial.

Strong economic growth in the Republic of Ireland has continued during 2018. Notwithstanding this continued strong economic performance, there are still challenges. In particular, there is heightened economic uncertainty around Brexit and the medium-term outlook for the UK economy continues to be uncertain.

WIB includes € 4.6 billion (31 December 2017: € 3.2 billion) in syndicated and international lending exposures. The Group has specialised lending teams which are involved in participating in the provision of finance to US and European corporations for mergers, acquisitions, buy-outs and general corporate purposes. At 31 December 2018, 100% of the syndicated and international lending portfolio is in a satisfactory grade. 63% of the customers in this portfolio are domiciled in the USA, 5% in the UK, and 32% in the Rest of the World (31 December 2017: 66% in the USA, 6% in the UK and 28% in the Rest of the World (primarily Europe) respectively). The largest industry sub-sectors within the portfolio include Healthcare and Pharmaceuticals, Business services, Food and Beverage, Telecoms and Hotel and Leisure.

There was a net credit impairment loss of € 11 million to the income statement in the year to 31 December 2018. This was driven by a charge of € 47 million offset by recoveries of previously written-off loans of € 36 million.

The portfolio held € 0.6 billion of ECL allowances which provides total ECL allowance cover of 3%. For the Stage 3 portfolio, the loss allowance cover is 37%.

3.1 Credit risk – credit profile of the loan portfolio

Non-performing exposures ("NPE") to customers

The internal credit ratings profile of loans and advances to customers is described on page 76. This sets out the basis on which the Group manages its credit portfolio. In addition, the Group's off-balance sheet commitments are set out on page 96.

The table below further analyses non-performing loans and advances to customers by asset class at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39 and uses the internal ratings methodology in operation at that time.

					2018
Non-performing loans	**Residential mortgages € m**	**Other personal € m**	**Property and construction € m**	**Non-property business € m**	**Total € m**
At amortised cost					
Collateral disposals	188	49	398	112	747
Unlikely to pay (including > 90 days past due)	2,689	261	808	758	4,516
Non-performing loans probation	392	35	140	150	717
Total gross carrying amount at amortised cost	3,269	345	1,346	1,020	5,980
At FVTPL					
Collateral disposals	–	–	14	–	14
Unlikely to pay (including > 90 days past due)	–	–	53	–	53
Non-performing loans probation	–	–	7	–	7
Total carrying amount at FVTPL	–	–	74	–	74
Total non-performing loans and advances to customers	3,269	345	1,420	1,020	6,054
Total ECL on non-performing loans and advances to customers	653	173	412	370	1,608
Non-performing loans as % of total loans and advances to customers	10%	11%	18%	5%	10%

					2017
Non-performing loans	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Impaired	3,293	362	1,803	872	6,330
Greater than 90 days past due but not impaired	246	47	141	122	556
Neither past due nor impaired and/or less than 90 days past due	1,277	145	1,005	881	3,308
Total non-performing loans	4,816	554	2,949	1,875	10,194
Non-performing loans as % of total gross loans	14%	18%	33%	11%	16%

	€ m	€ m	€ m	€ m	€ m
At 1 January 2018 (revised) non-performing loans and advances to customers	4,585	518	2,849	1,660	9,612
Total ECL on non-performing loans and advances to customers	1,286	255	1,035	609	3,185

The non-performing exposures ("NPE") stock was revised from € 10,194 million at 31 December 2017 to € 9,612 million at 1 January 2018 reflecting the implementation and harmonisation of a new definition of default policy which aligns to accounting standards and EBA guidelines. The revision resulted in a decrease of € 1.2 billion arising from the implementation of a one year probation rule for transferring from NPE to performing and the reclassification of a portfolio of loans that had been held as NPE for longer than the required probation period. This decrease was offset by an increase of € 0.6 billion arising from the implementation of a wider rule set for the identification of default. This rule set includes: the impact of contagion; number of forbearance events; determination of financial distress; and a materiality threshold for days past due.

Total non-performing off-balance sheet commitments

Total non-performing off-balance sheet commitments amounted to € 183 million (31 December 2017: € 322 million).

See page 76 for definition of the non-performing loan classifications above.

Continued momentum in 2018 in reducing the stock of non-performing loans resulted in in the quantum of defaulted loans reducing by € 4.1 billion in the 12 months to 31 December 2018 (a decrease of 41%). However, on a restated basis, excluding the impact of € 0.6 billion due to the implementation of a new definition of default policy, NPEs have reduced from € 9.6 billion (restated 15% of total gross loans at 1 January 2018) to € 6.1 billion (10% at 31 December 2018), a decrease of € 3.5 billion or 37%. This reduction was achieved through redemptions and repayments from customers, restructuring activity including non-contracted write-offs and asset sales/disposals.

The reductions were evident across all the components and asset classes with reductions noted in collateral disposals, unlikely-to-pay stock, loans greater than 90 days past due and loans in a probationary period within default.

Risk management – 3. Individual risk types

3.1 Credit risk – Investment securities

The following table analyses the carrying value of investment securities by major classification together with the unrealised gains and losses for those securities measured at FVOCI and FVTPL at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

	2018*			2017*		
	Carrying value € m	Unrealised gross gains € m	Unrealised gross losses € m	Carrying value € m	Unrealised gross gains € m	Unrealised gross losses € m
Debt securities at FVOCI (2017: available for sale)						
Irish Government securities	**6,282**	**401**	**(6)**	7,021	646	(6)
Euro government securities	**1,921**	**78**	**(4)**	2,406	124	–
Non Euro government securities	**158**	**3**	**(2)**	161	5	(1)
Supranational banks and government agencies	**1,132**	**26**	**(7)**	1,368	40	(4)
Collateralised mortgage obligations	**264**	**–**	**(11)**	278	–	(8)
Other asset backed securities	**103**	**–**	**–**	16	–	–
Euro bank securities	**5,007**	**46**	**(11)**	4,336	79	(1)
Non Euro bank securities	**815**	**1**	**(6)**	–	–	–
Euro corporate securities	**216**	**–**	**(2)**	56	–	–
Non Euro corporate securities	**48**	**–**	**–**	–	–	–
Total debt securities at FVOCI	**15,946**	**555**	**(49)**	15,642[(2)]	894	(20)
Debt securities at amortised cost						
Asset backed securities	**187**					
Total debt securities at amortised cost	**187**					
Equity securities						
Equity investments at FVOCI[(1)]	**468**	**425**	**–**	679	467	(3)
Equity investments at FVTPL	**260**	**84**	**(3)**	–	–	–
Total investment securities	**16,861**	**1,064**	**(52)**	16,321	1,361	(23)

Debt securities and related ECL analysed by IFRS 9 staging at 31 December 2018*

	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At amortised cost – gross	**187**	**–**	**–**	**187**
ECL allowance	**–**	**–**	**–**	**–**
At amortised cost – carrying value	**187**	**–**	**–**	**187**
At FVOCI – carrying value	**15,946**	**–**	**–**	**15,946**
ECL allowance (included in carrying value)	***(4)***	**–**	**–**	***(4)***
Total carrying value	**16,133**	**–**	**–**	**16,133**

[(1)]Includes NAMA subordinated bonds with a fair value of € 468 million (31 December 2017: € 466 million) of which unrealised gains amount to € 425 million (31 December 2017: € 423 million). These subordinated bonds were designated and measured at FVOCI on transition to IFRS 9 on 1 January 2018. All other equity investments are held at FVTPL.

[(2)]At 1 January 2018, on transition to IFRS 9, all debt securities were measured at FVOCI in Stage 1. These had an ECL allowance amounting to € 4 million which was included in the carrying value of € 15,642 million (see note 3 in the consolidated financial statements).

*Forms an integral part of the audited financial statements

3.1 Credit risk – Investment securities *(continued)*

The following table categorises the debt securities portfolio by contractual residual maturity and weighted average yield at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

								2018
	Within 1 year		After 1 but within 5 years		After 5 but within 10 years		After 10 years	
	€ m	Yield %	€ m	Yield %	€ m	Yield %	€ m	Yield %
At FVOCI								
Irish Government securities	**1,951**	**5.0**	**2,457**	**3.7**	**1,091**	**1.3**	**783**	**1.3**
Euro government securities	**210**	**1.9**	**1,221**	**1.8**	**490**	**1.4**	**–**	**–**
Non Euro government securities	**38**	**3.3**	**90**	**2.3**	**30**	**1.1**	**–**	**–**
Supranational banks and government agencies	**134**	**1.7**	**581**	**1.0**	**96**	**1.7**	**321**	**3.0**
Collateralised mortgage obligations	**–**	**–**	**–**	**–**	**9**	**2.2**	**255**	**2.4**
Other asset backed securities	**–**	**–**	**–**	**–**	**–**	**–**	**103**	**0.1**
Euro bank securities	**797**	**0.9**	**3,767**	**0.6**	**443**	**0.7**	**–**	**–**
Non Euro bank securities	**–**	**–**	**781**	**1.7**	**34**	**3.2**	**–**	**–**
Euro corporate securities	**8**	**–**	**63**	**1.2**	**130**	**1.3**	**15**	**1.7**
Non Euro corporate securities	**–**	**–**	**14**	**1.3**	**34**	**4.1**	**–**	**–**
Total at FVOCI	**3,138**	**3.6**	**8,974**	**1.8**	**2,357**	**1.3**	**1,477**	**1.8**
At amortised cost								
Asset backed securities	**–**	**–**	**–**	**–**	**–**	**–**	**187**	**2.3**
Total at amortised cost	**–**	**–**	**–**	**–**	**–**	**–**	**187**	**2.3**

								2017
	Within 1 year		After 1 but within 5 years		After 5 but within 10 years		After 10 years	
	€ m	Yield %	€ m	Yield %	€ m	Yield %	€ m	Yield %
Irish Government securities	1,071	4.7	3,400	4.5	2,166	2.4	384	1.4
Euro government securities	51	1.1	1,380	1.8	975	1.4	–	–
Non Euro government securities	–	–	117	2.5	44	1.7	–	–
Supranational banks and government agencies	305	1.2	694	1.2	123	1.5	246	2.3
Collateralised mortgage obligations	–	–	–	–	10	2.0	268	1.8
Other asset backed securities	–	–	–	–	–	–	16	0.1
Euro bank securities	133	0.9	3,787	0.7	416	0.5	–	–
Euro corporate securities	1	(0.1)	49	0.9	4	1.0	2	1.5
Non Euro corporate securities	–	–	–	–	–	–	–	–
Total available for sale securities	1,561	3.6	9,427	2.3	3,738	1.9	916	1.8

Risk management – 3. Individual risk types

3.1 Credit risk – Investment securities *(continued)*

The following tables analyse the investment securities portfolio by geography at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

	2018*			2017*		
Government securities	**Irish Government € m**	**Euro government € m**	**Non Euro government € m**	Irish Government € m	Euro government € m	Non Euro government € m
Republic of Ireland	**6,282**	**–**	**–**	7,021	–	–
Italy	**–**	**497**	**–**	–	907	–
France	**–**	**117**	**–**	–	122	–
Spain	**–**	**1,048**	**–**	–	1,075	–
Netherlands	**–**	**138**	**–**	–	195	–
Germany	**–**	**53**	**–**	–	56	–
Belgium	**–**	**23**	**–**	–	23	–
Austria	**–**	**28**	**–**	–	28	–
Portugal	**–**	**17**	**–**	–	–	–
United Kingdom	**–**	**–**	**60**	–	–	62
Czech Republic	**–**	**–**	**11**	–	–	12
Poland	**–**	**–**	**43**	–	–	44
Saudi Arabia	**–**	**–**	**44**	–	–	43
	6,282	**1,921**	**158**	7,021	2,406	161

	2018*	2017*
Asset backed securities	**Total € m**	Total € m
United States of America	**292**	278
Republic of Ireland	**158**	16
Netherlands	**85**	–
France	**19**	–
	554	294

	2018*		2017*	
Bank securities	**Euro € m**	**Non Euro € m**	Euro € m	Non Euro € m
Republic of Ireland	**358**	**–**	423	–
France	**908**	**86**	529	–
Netherlands	**537**	**55**	516	–
United Kingdom	**690**	**165**	553	–
Australia	**396**	**124**	335	–
Sweden	**390**	**80**	372	–
Canada	**753**	**184**	728	–
Finland	**238**	**–**	198	–
Norway	**307**	**40**	282	–
Belgium	**80**	**–**	289	–
Germany	**37**	**–**	30	–
Denmark	**118**	**–**	57	–
New Zealand	**24**	**–**	24	–
Switzerland	**54**	**22**	–	–
United States of America	**40**	**42**	–	–
Singapore	**77**	**17**	–	–
	5,007	**815**	4,336	–

*Forms an integral part of the audited financial statements

3.1 Credit risk – Investment securities *(continued)*

Debt securities at FVOCI

Debt securities held at fair value through other comprehensive income (“FVOCI”) increased to € 15.9 billion (nominal € 15.2 billion) at 31 December 2018 from a fair value of € 15.6 billion (nominal € 14.9 billion) at 31 December 2017. Bank securities increased by € 1.5 billion offset by decreases in Irish Government securities (€ 0.7 billion) and euro government securities (€ 0.5 billion).

The external ratings profile remained relatively static with total investment grade ratings remaining at 100%. The profile of the investment grade ratings was AAA: 29% (2017: 27%); AA: 12% (2017: 13%); A: 46% (2017: 47%); BBB: 13% (2017: 13%); and the sub investment grade remained at 0% (2017: 0%)

Republic of Ireland securities

The fair value of Irish debt securities amounted to € 6.8 billion at 31 December 2018 (2017: € 7.4 billion) and consisted of sovereign debt € 6.3 billion (2017: € 7.0 billion), senior unsecured bonds of € 0.1 billion (2017: € 0.2 billion), covered bonds of € 0.2 billion (2017: € 0.2 billion) and others (corporate, and asset backed securities bonds) at € 0.2 billion (2017: Nil). The fall in Irish sovereign debt was primarily driven by a bond redemption in October which reduced the nominal holding by € 1.0 billion. This was partially offset by € 0.4 billion of new purchases.

United Kingdom securities

The fair value of United Kingdom securities amounted to € 0.9 billion at 31 December 2018 (2017: € 0.6 billion) and consisted of sovereign debt € 0.1 billion (2017: € 0.1 billion), senior unsecured bonds of € 0.2 billion (2017: € 0.1 billion), covered bonds of € 0.6 billion (2017: € 0.4 billion).

Euro government securities

The fair value of government securities denominated in euros (excluding those issued by the Irish Government) decreased by € 0.5 billion to € 1.9 billion (2017: € 2.4 billion). This decrease was largely due to net sales of Italian Government securities, (nominal € 0.3 billion).

Bank securities

At 31 December 2018, the fair value of bank securities of € 5.8 billion (2017: € 4.3 billion) included € 3.2 billion in covered bonds (2017: € 2.8 billion), € 2.3 billion in senior unsecured bank debt (2017: € 1.3 billion), € 0.3 billion in government guaranteed senior bank debt (2017: € 0.2 billion). The net purchases of covered bonds (nominal € 0.4 billion) and senior unsecured (nominal € 1.1 billion) drove this increase.

Asset backed securities

Asset backed securities increased to € 0.4 billion (2017: € 0.3 billion).

Equity securities

The fair value of the NAMA subordinated bonds increased to € 468 million (nominal € 437 million) at 31 December 2018 to 107.20% from 106.69% of nominal.

3.1 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 2018. These include loans and advances to banks, investment debt securities, trading portfolio financial assets and loans and advances to customers (where an external rating is available). Comparative data for 31 December 2017 has been prepared under IAS 39.

	At amortised cost			At FVOCI					2018 Total
	Bank € m	Other € m	Total € m	Bank € m	Corporate € m	Sovereign € m	Other € m	Total € m	€ m
AAA/AA	**987**	**98**	**1,085**	**4,695**	**–**	**1,551**	**367**	**6,613**	**7,698**
A/A-	**423**	**79**	**502**	**807**	**79**	**6,381**	**–**	**7,267**	**7,769**
BBB+/BBB/BBB-	**32**	**10**	**42**	**320**	**156**	**1,561**	**–**	**2,037**	**2,079**
Sub investment	**–**	**–**	**–**	**–**	**29**	**–**	**–**	**29**	**29**
Unrated	**1**	**–**	**1**	**–**	**–**	**–**	**–**	**–**	**1**
Total	**1,443**	**187**	**1,630**	**5,822**	**264**	**9,493**[(1)]	**367**	**15,946**	**17,576**
Of which: Stage 1	**1,443**	**187**	**1,630**	**5,822**	**264**	**9,493**	**367**	**15,946**	**17,576**
Stage 2	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Stage 3	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

	Bank € m	Corporate € m	Sovereign € m	Other € m	2017 Total € m
AAA/AA	4,430	–	1,867	295	6,592
A/A-	961	3	7,139	–	8,103
BBB+/BBB/BBB-	164	36	1,982	–	2,182
Sub investment	–	17	–	–	17
Unrated	94	–	–	–	94
Total	5,649	56	10,988[(1)]	295	16,988

[(1)]Includes supranational banks and government agencies.

Large exposures

The Group Large Exposure Policy sets out maximum exposure limits to, or on behalf of, a customer or a group of connected customers.

At 31 December 2018, the Group's top 50 exposures amounted to € 4.4 billion, and accounted for 7.1% (2017: € 4.3 billion and 6.7%) of the Group's on-balance sheet total gross loans and advances to customers. In addition, these customers have undrawn facilities amounting to € 606 million (2017: € 146 million). No single customer exposure exceeded regulatory requirements.

*Forms an integral part of the audited financial statements

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

The tables on the following pages denoted by * form part of the audited financial statements as described in the 'Basis of preparation' on pages 235 to 237. All other information in 'Additional credit quality and forbearance disclosures on loans and advances to customers' is additional information and does not form part of the audited financial statements.

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

Republic of Ireland residential mortgages by year of origination

The following table profiles the Republic of Ireland residential mortgage portfolio by year of origination at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

	2018				2017			
	Total		Credit impaired/POCI		Total		Impaired	
	Number	Balance € m	Number	Balance € m	Number	Balance € m	Number	Balance € m
1996 and before	2,158	62	429	15	2,472	78	345	12
1997	809	24	155	5	925	30	134	5
1998	1,145	40	238	8	2,474	54	196	8
1999	2,991	77	375	17	3,377	106	266	18
2000	3,985	145	493	27	4,393	184	386	26
2001	4,606	222	546	37	4,991	270	395	33
2002	7,166	436	910	70	7,787	529	660	61
2003	10,361	760	1,396	126	11,804	916	1,044	112
2004	15,076	1,337	2,113	215	16,272	1,580	1,650	209
2005	21,309	2,178	3,219	362	22,944	2,584	2,651	394
2006	28,268	3,549	4,776	599	30,178	4,147	4,057	679
2007	28,273	3,759	4,909	637	29,712	4,322	4,180	720
2008	27,100	3,732	4,066	565	28,971	4,231	3,311	574
2009	17,730	2,277	1,841	255	18,862	2,558	1,324	214
2010	12,328	1,597	674	89	13,137	1,786	507	82
2011	3,679	461	109	14	3,938	520	74	11
2012	5,420	718	60	11	5,781	797	9	1
2013	4,724	640	40	10	5,088	712	6	1
2014	6,565	919	40	5	7,047	1,040	20	2
2015	9,315	1,386	108	22	9,849	1,530	14	2
2016	10,873	1,796	95	16	11,414	1,954	7	1
2017	12,437	2,227	51	10	12,764	2,272	1	0
2018	14,626	2,638	27	6	–	–	–	–
Total	250,944	30,980	26,670	3,121	254,180	32,200	21,237	3,165

A significant element (€ 13.2 billion or 43%) of the € 31 billion residential mortgage portfolio was originated between 2005 and 2008, of which 16% (€ 2.2 billion) was credit impaired at 31 December 2018. This cohort was impacted by reduced household income and increased unemployment rates in the years during the financial crisis, and where property prices had decreased from a peak in 2007. 10% of the residential mortgage portfolio was originated before 2005 of which 17% was credit impaired at 31 December 2018, while the remaining 47% of the portfolio was originated from 2009 onwards, of which 3% was credit impaired at 31 December 2018.

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

Republic of Ireland residential mortgages by age profile

The following table provides an age profile of the Republic of Ireland residential mortgage portfolio by ECL staging at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

					2018*
	At amortised cost				
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Owner-occupier					
Not past due	22,553	2,596	664	172	25,985
1 - 30 days	62	217	110	17	406
31 - 60 days	–	38	65	5	108
61 - 90 days	–	16	71	2	89
91 - 180 days	–	–	115	5	120
181 - 365 days	–	–	137	6	143
Over 365 days	–	–	975	15	990
Total	22,615	2,867	2,137	222	27,841
Buy-to-let					
Not past due	1,924	420	252	6	2,602
1 - 30 days	7	20	23	–	50
31 - 60 days	–	4	13	–	17
61 - 90 days	–	2	13	–	15
91 - 180 days	–	–	27	–	27
181 - 365 days	–	–	43	–	43
Over 365 days	–	–	379	6	385
Total	1,931	446	750	12	3,139
Total					
Not past due	24,477	3,016	916	178	28,587
1 - 30 days	69	237	133	17	456
31 - 60 days	–	42	78	5	125
61 - 90 days	–	18	84	2	104
91 - 180 days	–	–	142	5	147
181 - 365 days	–	–	180	6	186
Over 365 days	–	–	1,354	21	1,375
Total gross carrying amount of residential mortgages	24,546	3,313	2,887	234	30,980
ECL allowance	(7)	(49)	(599)	(31)	(686)
Carrying value	24,539	3,264	2,288	203	30,294

									2017*
	Non-impaired			Impaired			Total		
	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Not past due	25,394	2,802	28,196	398	153	551	25,792	2,955	28,747
1 - 30 days	387	56	443	100	26	126	487	82	569
31 - 60 days	91	15	106	51	20	71	142	35	177
61 - 90 days	42	8	50	44	13	57	86	21	107
91 - 180 days	28	16	44	107	30	137	135	46	181
181 - 365 days	30	21	51	137	50	187	167	71	238
Over 365 days	88	57	145	1,440	596	2,036	1,528	653	2,181
Total gross loans	26,060	2,975	29,035	2,277	888	3,165	28,337	3,863	32,200
Provisions for impairment									
Specific							(793)	(309)	(1,102)
IBNR							(188)	(90)	(278)
							(981)	(399)	(1,380)
Carrying value							27,356	3,464	30,820

*Forms an integral part of the audited financial statements

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

Republic of Ireland residential mortgages – properties in possession[1]

The Group seeks to avoid repossession through working with customers, but where agreement cannot be reached, it proceeds to repossession of the property or the appointment of a receiver, using 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 2018 and 2017 is set out below:

	2018		2017	
	Stock	Balance outstanding € m	Stock	Balance outstanding € m
Owner-occupier	547	131	602	145
Buy-to-let	46	10	53	11
Total	593	141	655	156

[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 62 properties in 2018. This decrease relates to the disposal of 53 properties (31 December 2017: 203 properties) which were offset by the addition of 43 properties (31 December 2017: 112 properties), the majority of which were voluntary surrenders or abandonments. In addition, a further 52 properties were removed from the stock in 2018, mainly due to cases where the receiver has been discharged.

The disposal of 53 residential properties in the Republic of Ireland resulted in a total loss on disposal of € 6.75 million at 31 December 2018 (before loss allowance) and compares to 31 December 2017 when 203 residential properties were disposed of resulting in a total loss of € 23 million. Losses on the sale of such properties are recognised in the income statement as part of the net credit impairment losses.

Republic of Ireland residential mortgages – repossessions disposed of

The following table analyses the disposals of repossessed properties for the years ended 31 December 2018 and 2017:

					2018
	Number of disposals	Outstanding balance at repossession date € m	Gross sales proceeds on disposal € m	Costs to sell € m	Loss on sale[1] € m
Owner-occupier	49	13	8	1	6
Buy-to-let	4	1	–	–	1
Total	53	14	8	1	7

					2017
	Number of disposals	Outstanding balance at repossession date € m	Gross sales proceeds on disposal € m	Costs to sell € m	Loss on sale[1] € m
Owner-occupier	187	48	30	3	21
Buy-to-let	16	4	2	–	2
Total	203	52	32	3	23

[1]Before ECL allowance/specific impairment provisions.

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

United Kingdom residential mortgages by year of origination

The following table profiles the United Kingdom residential mortgage portfolio by year of origination at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

	2018				2017			
	Total		Credit impaired/POCI		Total		Impaired	
	Number	Balance € m	Number	Balance € m	Number	Balance € m	Number	Balance € m
1996 and before	641	13	38	1	925	20	32	1
1997	253	5	8	–	298	6	4	–
1998	240	6	13	–	311	6	11	–
1999	493	13	39	1	561	17	38	1
2000	566	13	23	1	639	17	24	1
2001	592	18	66	2	663	21	55	2
2002	899	35	57	3	1,038	43	58	3
2003	1,257	60	115	7	1,495	73	102	4
2004	1,461	80	148	10	1,687	95	136	10
2005	2,053	142	217	18	2,307	167	206	15
2006	2,818	252	256	33	3,123	290	230	25
2007	2,390	294	256	40	2,638	346	227	40
2008	950	113	93	16	1,085	136	82	18
2009	405	32	23	2	474	41	17	3
2010	209	16	15	1	238	22	13	5
2011	105	7	2	–	116	9	–	–
2012	111	11	3	–	126	12	1	–
2013	203	17	1	–	244	23	1	–
2014	284	35	–	–	342	46	–	–
2015	195	27	2	–	223	35	–	–
2016	180	26	2	1	198	29	–	–
2017	422	61	–	–	434	66	–	–
2018	446	59	–	–	–	–	–	–
Total	**17,173**	**1,335**	**1,377**	**136**	19,165	1,520	1,237	128

The majority (€ 0.8 billion or 60%) of the € 1.3 billion residential mortgage portfolio in the UK was originated between 2005 and 2008. 13% (€ 0.1 billion) of mortgages from this period were credit impaired as at 31 December 2018, driven by the financial crisis in 2008 which led to unemployment and reduced disposable incomes, and the rapid reduction in house prices experienced following the peak in 2007. 18% of the portfolio was originated before 2005 of which 10% was credit impaired at 31 December 2018, and the remaining 22% of the portfolio was originated since 2009 of which 1.4% was credit impaired at 31 December 2018. The improving impairment profile in recent years is reflective of more responsible lending practices and affordability regulations introduced following the financial crisis.

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

United Kingdom residential mortgages by age profile

The following table provides an age profile of the United Kingdom residential mortgage portfolio by ECL staging at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

	2018*				
	At amortised cost				
Owner-occupier	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Not past due	983	111	50	–	1,144
1 - 30 days	–	3	2	–	5
31 - 60 days	–	3	7	–	10
61 - 90 days	–	1	7	–	8
91 - 180 days	–	–	7	–	7
181 - 365 days	–	–	8	–	8
Over 365 days	–	–	46	–	46
Total	983	118	127	–	1,228
Buy-to-let					
Not past due	88	10	2	–	100
1 - 30 days	–	–	–	–	–
31 - 60 days	–	–	–	–	–
61 - 90 days	–	–	1	–	1
91 - 180 days	–	–	1	–	1
181 - 365 days	–	–	2	–	2
Over 365 days	–	–	3	–	3
Total	88	10	9	–	107
Total					
Not past due	1,071	121	52	–	1,244
1 - 30 days	–	3	2	–	5
31 - 60 days	–	3	7	–	10
61 - 90 days	–	1	8	–	9
91 - 180 days	–	–	8	–	8
181 - 365 days	–	–	10	–	10
Over 365 days	–	–	49	–	49
Total gross carrying amount of residential mortgages	1,071	128	136	–	1,335
ECL allowance	(1)	(2)	(24)	–	(27)
Total	1,070	126	112	–	1,308

	2017*								
	Non-impaired			Impaired			Total		
	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Not past due	1,189	173	1,362	24	3	27	1,213	176	1,389
1 - 30 days	9	1	10	9	1	10	18	2	20
31 - 60 days	8	–	8	3	1	4	11	1	12
61 - 90 days	6	–	6	4	–	4	10	–	10
91 - 180 days	5	–	5	6	2	8	11	2	13
181 - 365 days	1	–	1	12	1	13	13	1	14
Over 365 days	–	–	–	51	11	62	51	11	62
Total gross loans	1,218	174	1,392	109	19	128	1,327	193	1,520
Provisions for impairment									
Specific							(29)	(4)	(33)
IBNR							(5)	–	(5)
							(34)	(4)	(38)
Carrying value							1,293	189	1,482

*Forms an integral part of the audited financial statements

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

United Kingdom residential mortgages – properties in possession[1]

For the purpose of the following table, a residential property is considered to be in AIB's possession when AIB has taken possession of and is in a position to dispose of the property. This includes situations of repossession, voluntary surrender and abandonment of the property.

The number (stock) of properties in possession at 31 December 2018 and 2017 is set out below:

	2018 Stock	2018 Balance outstanding € m	2017 Stock	2017 Balance outstanding € m
Owner-occupier	16	3	13	3
Buy-to-let	2	–	14	2
Total	18	3	27	5

[1]The number of residential properties in possession relates to those held as security for residential mortgages only.

The stock of residential properties continued to decrease in 2018, and has reduced from 27 properties at December 2017 to 18 properties.

United Kingdom residential mortgages – repossessions disposed of

The following table analyses the disposals of repossessed properties for the years ended 31 December 2018 and 2017:

2018	Number of disposals	Outstanding balance at repossession date € m	Gross sales proceeds on disposal € m	Costs to sell € m	Loss on sale[1] € m
Owner-occupier	24	6	4	–	2
Buy-to-let	11	2	1	–	1
Total	35	8	5	–	3

2017	Number of disposals	Outstanding balance at repossession date € m	Gross sales proceeds on disposal € m	Costs to sell € m	Loss on sale[1] € m
Owner-occupier	50	10	6	–	4
Buy-to-let	3	1	–	–	1
Total	53	11	6	–	5

[1]Before ECL allowance/specific impairment provisions.

The disposal of 35 residential properties in possession resulted in a loss on disposal of € 3 million before loss allowance (2017: disposal of 53 properties resulting in a loss on disposal of € 5 million). Losses on the sale of properties in possession are recognised in the income statement as part of the net credit impairment losses.

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

Forbearance

The Group's forbearance initiatives are detailed on pages 79 to 80 in the 'Risk management' section of this report.

The following table sets out the risk profile of forborne loans and advances to customers at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

						2018
	At amortised cost					At FVTPL
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m	Total € m
Strong/satisfactory:						
Stage 1	1	–	–	–	1	–
Stage 2	2	–	–	–	2	–
Stage 3	–	–	–	–	–	–
POCI	–	–	–	–	–	–
Total	3	–	–	–	3	–
Criticised:						
Stage 1	1	1	160	24	186	–
Stage 2	1,072	68	109	260	1,509	–
Stage 3	–	–	–	–	–	–
POCI	5	–	–	–	5	–
Total	1,078	69	269	284	1,700	–
Non-performing:						
Stage 1	21	3	157	33	214	–
Stage 2	–	–	–	–	–	–
Stage 3	2,354	187	613	483	3,637	–
POCI	211	–	2	–	213	–
Total	2,586	190	772	516	4,064	–
Total gross carrying amount of forborne loans and advances to customers	3,667[(1)]	259	1,041	800	5,767	–
Total gross carrying amount of loans and advances to customers	32,315	3,075	7,804	19,566	62,760	147

[(1)]Republic of Ireland: € 3,615 million and United Kingdom: € 52 million.

					2017
	Residential mortgages € m	Other personal € m	Property and construction € m	Non-property business € m	Total € m
Forborne loans and advances to customers					
Neither past due nor impaired:					
Good upper	526	1	1	1	529
Good lower	577	333	33	119	1,062
Watch	229	12	50	36	327
Vulnerable	1,156	98	686	695	2,635
Total	2,488	444	770	851	4,553
Past due but not impaired	485	56	136	103	780
Impaired	1,765	144	454	327	2,690
Total	2,250	200	590	430	3,470
Total gross carrying amount of forborne loans and advances to customers	4,738[(1)]	644	1,360	1,281	8,023
Total gross carrying amount of loans and advances to customers	33,720	3,122	8,820	17,676	63,338

[(1)]Republic of Ireland: € 4,692 million and United Kingdom: € 46 million.

The Republic of Ireland residential mortgage forbearance portfolio is profiled in more detail on pages 135 to 140 and further detail on the non-mortgage forbearance portfolio is included on pages 141 to 144.

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

Forbearance

Republic of Ireland residential mortgages

The Group has a Mortgage Arrears Resolution Strategy (“MARS”) for dealing with mortgage customers in difficulty or likely to be in difficulty, which builds on and formalises the Group’s Mortgage Arrears Resolution Process. The core objectives of MARS are to ensure that arrears solutions are sustainable in the long term and that they comply with the spirit and the letter of all regulatory requirements. MARS includes long-term forbearance solutions which have been devised to assist existing Republic of Ireland primary residential mortgage customers in difficulty.

Under the definition of forbearance, which complies with that prescribed by the EBA, loans subject to forbearance measures remain in forbearance stock for a period of two years from the date forbearance is granted regardless of the forbearance type. Therefore, cases that receive a short-term forbearance measure, such as interest only and return to a full principal and interest repayment schedule at the end of the interest only period, will remain in the stock of forbearance for at least two years.

In the forbearance tables, temporary forbearance solutions (e.g. interest only, reduced payment) are included in the forbearance stock for as long as they are active, but are removed from the forbearance stock when the temporary agreement with the customer expires.

Notwithstanding the addition of € 0.6 billion of loans to the mortgage forbearance stock in the 12 months to 31 December 2018, due to enhancements to data in line with the implementation of the new definition of default policy, the stock of loans subject to forbearance measures decreased by € 1.1 billion from 31 December 2017 to € 3.6 billion at 31 December 2018. This decrease was driven by customers exiting the forbearance probation period and by lower numbers of customers seeking new forbearance solutions which is reflective of improving customer ability to meet their mortgage terms.

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

Forbearance

Republic of Ireland residential mortgages *(continued)*

The following table analyses movements in the stock of loans subject to forbearance by (i) owner-occupier, (ii) buy-to-let and (iii) total residential mortgages at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

		2018		2017
Owner-occupier	**Number**	**Balance € m**	Number	Balance € m
At 1 January	**25,067**	**3,549**	29,865	4,274
Implementation of definition of default policy	**1,850**	**240**	–	–
Additions	**1,372**	**173**	2,973	438
Expired arrangements	**(5,690)**	**(758)**	(6,691)	(899)
Payments	**–**	**(185)**	–	(209)
Interest	**–**	**71**	–	95
Closed accounts[1]	**(914)**	**(92)**	(1,000)	(91)
Disposals	**(23)**	**(7)**	–	–
Advanced forbearance arrangements - valuation adjustments	**–**	**(3)**	–	(8)
Write-offs[2]	**–**	**(212)**	(87)	(53)
Transfer between owner-occupier and buy-to-let	**(80)**	**(5)**	7	2
At 31 December	**21,582**	**2,771**	25,067	3,549

Buy-to-let	**Number**	**Balance € m**	Number	Balance € m
At 1 January	**7,244**	**1,143**	9,509	1,657
Implementation of definition of default policy	**2,224**	**310**	–	–
Additions	**164**	**17**	415	54
Expired arrangements	**(1,534)**	**(210)**	(530)	(91)
Payments	**–**	**(121)**	–	(130)
Interest	**–**	**17**	–	28
Closed accounts[1]	**(905)**	**(103)**	(1,544)	(219)
Disposals	**(873)**	**(170)**	(521)	(102)
Advanced forbearance arrangements - valuation adjustments	**–**	**(1)**	–	(7)
Write-offs[2]	**–**	**(43)**	(78)	(45)
Transfer between owner-occupier and buy-to-let	**80**	**5**	(7)	(2)
At 31 December	**6,400**	**844**	7,244	1,143

Total	**Number**	**Balance € m**	Number	Balance € m
At 1 January	**32,311**	**4,692**	39,374	5,931
Implementation of definition of default policy	**4,074**	**550**	–	–
Additions	**1,536**	**190**	3,388	492
Expired arrangements	**(7,224)**	**(968)**	(7,221)	(990)
Payments	**–**	**(306)**	–	(339)
Interest	**–**	**88**	–	123
Closed accounts[1]	**(1,819)**	**(195)**	(2,544)	(310)
Disposals	**(896)**	**(177)**	(521)	(102)
Advanced forbearance arrangements - valuation adjustments	**–**	**(4)**	–	(15)
Write-offs[2]	**–**	**(255)**	(165)	(98)
At 31 December	**27,982**	**3,615**	32,311	4,692

[1]Accounts closed during the year were due primarily to customer repayments and redemptions.

[2]Includes contracted and non-contracted write-offs.

In line with the implementation of the new definition of default policy, the Group enhanced the modification and forbearance data which added € 0.6 billion of loans into the stock of forbearance as at 1 January 2018.

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

Forbearance

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by type of forbearance

The following table analyses by type of forbearance and staging (i) owner-occupier, (ii) buy-to-let and (iii) total residential mortgages that are based on current forbearance measures in the Republic of Ireland at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

							2018
			Gross at amortised cost				
		Total	Stage 1	Stage 2	Stage 3	POCI	Loss allowance
Owner-occupier	Number	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m
Interest only	5,590	748	–	165	580	3	164
Reduced payment	1,178	191	–	35	156	–	41
Payment moratorium	906	105	–	41	64	–	14
Fundamental restructure	2	–	–	–	–	–	–
Restructure	218	12	–	2	10	–	5
Arrears capitalisation	8,384	1,088	–	492	557	39	111
Term extension	905	89	–	43	44	2	9
Split mortgages	1,060	156	–	89	67	–	16
Voluntary sale for loss	413	12	–	–	3	9	10
Low fixed interest rate	1,195	176	–	–	38	138	14
Positive equity solutions	1,472	151	–	–	150	1	9
Other	259	43	5	7	19	12	5
Total	21,582	2,771	5	874	1,688	204	398
Buy-to-let							
Interest only	2,081	306	–	56	250	–	47
Reduced payment	504	90	–	28	62	–	14
Payment moratorium	274	37	–	5	32	–	11
Fundamental restructure	446	56	17	–	39	–	9
Restructure	683	29	–	3	26	–	14
Arrears capitalisation	1,531	229	–	79	150	–	27
Term extension	282	43	–	19	22	2	6
Split mortgages	59	9	–	4	5	–	2
Voluntary sale for loss	308	9	–	–	–	9	7
Low fixed interest rate	9	1	–	–	–	1	–
Positive equity solutions	23	2	–	–	2	–	–
Other	200	33	–	–	33	–	5
Total	6,400	844	17	194	621	12	142
Total							
Interest only	7,671	1,054	–	221	830	3	211
Reduced payment	1,682	281	–	63	218	–	55
Payment moratorium	1,180	142	–	46	96	–	25
Fundamental restructure	448	56	17	–	39	–	9
Restructure	901	41	–	5	36	–	19
Arrears capitalisation	9,915	1,317	–	571	707	39	138
Term extension	1,187	132	–	62	66	4	15
Split mortgages	1,119	165	–	93	72	–	18
Voluntary sale for loss	721	21	–	–	3	18	17
Low fixed interest rate	1,204	177	–	–	38	139	14
Positive equity solutions	1,495	153	–	–	152	1	9
Other	459	76	5	7	52	12	10
Total forbearance	27,982	3,615	22	1,068	2,309	216	540
Of which: Performing	7,821	1,074	1	1,068	–	5	25
Non-performing	20,161	2,541	21	–	2,309	211	515

3.2 Additional credit quality and forbearance disclosures on loans and advances to customers
Forbearance
Republic of Ireland residential mortgages *(continued)*
Residential mortgages subject to forbearance measures by type of forbearance *(continued)*

						2017
	Total		Loans neither > 90 days in arrears nor impaired		Loans > 90 days in arrears and/or impaired	
Owner-occupier	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	5,008	756	2,537	359	2,471	397
Reduced payment	973	191	399	74	574	117
Payment moratorium	1,984	325	1,713	292	271	33
Restructure	258	22	71	9	187	13
Arrears capitalisation	10,744	1,477	6,784	918	3,960	559
Term extension	1,284	135	1,005	108	279	27
Split mortgages	1,848	287	1,360	213	488	74
Voluntary sale for loss	380	13	183	4	197	9
Low fixed interest rate	1,036	159	855	130	181	29
Positive equity solutions	1,318	143	1,220	133	98	10
Other	234	41	177	31	57	10
Total	25,067	3,549	16,304	2,271	8,763	1,278
Buy-to-let	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	1,641	306	725	131	916	175
Reduced payment	500	103	248	52	252	51
Payment moratorium	269	41	98	16	171	25
Fundamental restructure	837	113	412	57	425	56
Restructure	725	50	86	10	639	40
Arrears capitalisation	2,108	378	1,013	176	1,095	202
Term extension	446	72	353	50	93	22
Split mortgages	118	20	48	7	70	13
Voluntary sale for loss	293	13	183	4	110	9
Low fixed interest rate	8	1	8	1	–	–
Positive equity solutions	20	2	18	2	2	–
Other	279	44	90	15	189	29
Total	7,244	1,143	3,282	521	3,962	622
Total	Number	Balance € m	Number	Balance € m	Number	Balance € m
Interest only	6,649	1,062	3,262	490	3,387	572
Reduced payment	1,473	294	647	126	826	168
Payment moratorium	2,253	366	1,811	308	442	58
Fundamental restructure	837	113	412	57	425	56
Restructure	983	72	157	19	826	53
Arrears capitalisation	12,852	1,855	7,797	1,094	5,055	761
Term extension	1,730	207	1,358	158	372	49
Split mortgages	1,966	307	1,408	220	558	87
Voluntary sale for loss	673	26	366	8	307	18
Low fixed interest rate	1,044	160	863	131	181	29
Positive equity solutions	1,338	145	1,238	135	100	10
Other[1]	513	85	267	46	246	39
Total forbearance	32,311	4,692	19,586	2,792	12,725	1,900

[1]Included in 'Other' is: € 35 million relating to forbearance solutions where it was agreed that the customers will dispose of the relevant assets but this has not yet completed; € 25 million relating to negative equity trade downs; and € 4 million relating to affordable mortgage solutions where customers agreed to pay an amount that is affordable.

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

Forbearance

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures by type of forbearance *(continued)*

A key feature of the forbearance portfolio is the level of advanced forbearance solutions (split mortgages, low fixed interest rate, voluntary sale for loss, negative equity trade down and positive equity solutions) driven by the Group's strategy to deliver sustainable long-term solutions to customers. Advanced forbearance solutions at € 0.5 billion accounted for 14% of the total forbearance portfolio at 31 December 2018 (31 December 2017: € 0.7 billion, 14%). Following restructure, loans are reported as defaulted for a probationary period of at least 12 months.

Other permanent standard forbearance solutions are term extensions and arrears capitalisation (which often include a term extension). Permanent forbearance solutions are reported within the stock of forbearance for five years, and therefore, represent in some cases forbearance solutions which were agreed up to five years ago. These include loans where a subsequent interest only or other temporary arrangement had expired at 31 December 2018, but where an arrears capitalisation or term extension was awarded previously.

Arrears capitalisation continues to be the largest category of forbearance solutions at 31 December 2018, accounting for 36% by value of the total forbearance portfolio (31 December 2017: 40%). While actually decreasing year on year, a high proportion of the arrears capitalisation portfolio (57% by value) is defaulted at 31 December 2018. This reflects the historic nature of the forbearance event for part of the portfolio and the requirement that loans complete a probationary period of at least 12 months before being upgraded from default, as described above.

Residential mortgages subject to forbearance measures – days past due analysis.

The following table sets out gross residential mortgages subject to forbearance measures analysed by credit profile and by the number of days past due status at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

					2018
	At amortised cost				
Owner-occupier	**Stage 1 € m**	**Stage 2 € m**	**Stage 3 € m**	**POCI € m**	**Total € m**
Not past due	5	796	602	154	1,557
1 - 30 days	–	69	105	17	191
31 - 60 days	–	5	60	5	70
61 - 90 days	–	4	58	2	64
91 - 180 days	–	–	95	5	100
181 - 365 days	–	–	114	6	120
Over 365 days	–	–	654	15	669
Total	5	874	1,688	204	2,771
Buy-to-let					
Not past due	16	186	210	6	418
1 - 30 days	1	8	20	–	29
31 - 60 days	–	–	12	–	12
61 - 90 days	–	–	12	–	12
91 - 180 days	–	–	22	–	22
181 - 365 days	–	–	38	–	38
Over 365 days	–	–	307	6	313
Total	17	194	621	12	844
Total					
Not past due	21	982	812	160	1,975
1 - 30 days	1	77	125	17	220
31 - 60 days	–	5	72	5	82
61 - 90 days	–	4	70	2	76
91 - 180 days	–	–	117	5	122
181 - 365 days	–	–	152	6	158
Over 365 days	–	–	961	21	982
Total gross loans subject to forbearance	22	1,068	2,309	216	3,615

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

Forbearance

Republic of Ireland residential mortgages *(continued)*

Residential mortgages subject to forbearance measures – days past due analysis.

									2017
	Non-impaired			Impaired			Total		
	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m	Owner-occupier € m	Buy-to-let € m	Total € m
Not past due	1,998	476	2,474	335	117	452	2,333	593	2,926
1 – 30 days	190	33	223	88	21	109	278	54	332
31 – 60 days	55	7	62	41	17	58	96	24	120
61 – 90 days	28	5	33	37	8	45	65	13	78
91 – 180 days	22	11	33	84	24	108	106	35	141
181 – 365 days	21	17	38	108	39	147	129	56	185
Over 365 days	61	32	93	481	336	817	542	368	910
Total loans subject to forbearance	2,375	581	2,956	1,174	562	1,736	3,549	1,143	4,692

Within the forborne portfolio of € 3.6 billion at 31 December 2018, € 2 billion is currently performing in accordance with agreed terms for sustainable forbearance solutions and the continued compliance with these terms over the probationary period will result in an upgrade out of default and forbearance. The remaining € 1.6 billion includes loans that have been the subject of a temporary or short term forbearance solution but will remain classified as forborne and in arrears until a sustainable solution has been put in place. Following this, they will be required to maintain a satisfactory performance for at least 12 months before being considered for upgrade out of default and probation.

Republic of Ireland residential mortgages subject to forbearance measures by indexed loan-to-value ratios

The following table profiles the Republic of Ireland residential mortgage portfolio that was subject to forbearance measures by the indexed loan-to-value ratios at 31 December 2018 and 2017:

			2018			2017
	Owner-occupier € m	**Buy-to-let € m**	**Total € m**	Owner-occupier € m	Buy-to-let € m	Total € m
Less than 50%	**784**	**230**	**1,014**	838	263	1,101
50% – 70%	**727**	**214**	**941**	895	250	1,145
71% – 80%	**329**	**106**	**435**	425	126	551
81% – 90%	**287**	**70**	**357**	383	118	501
91% – 100%	**242**	**60**	**302**	350	117	467
101% – 120%	**252**	**58**	**310**	444	129	573
121% – 150%	**99**	**36**	**135**	167	71	238
Greater than 150%	**37**	**40**	**77**	33	56	89
Unsecured	**14**	**30**	**44**	14	13	27
Total forbearance	**2,771**	**844**	**3,615**	3,549	1,143	4,692

Negative equity in the residential mortgage portfolio in the Republic of Ireland that was subject to forbearance measures at 31 December 2018 was 14% of the owner-occupier portfolio (2017: 18%) and 16% of the buy-to-let portfolio (2017: 22%), due primarily to the continued increase in property prices in 2018 and loan repayments.

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

Forbearance

Non-mortgage

The following table analyses movements in the stock of loans subject to forbearance in the Republic of Ireland and the United Kingdom at 31 December 2018 and 2017, excluding residential mortgages which are analysed on pages 135 to 140.
Comparative data for 31 December 2017 has been prepared under IAS 39.

	2018				2017			
	Other personal	Property and construction	Non-property business	Total	Other personal	Property and construction	Non-property business	Total
Republic of Ireland	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January	641	1,311	1,236	3,188	608	1,862	1,527	3,997
Implementation of definition of default policy	(211)	66	(22)	(167)	–	–	–	–
Additions	35	242	104	381	188	157	130	475
Fundamental restructures - valuation adjustments	(11)	(4)	(11)	(26)	(4)	(36)	(22)	(62)
Write-offs	(22)	(40)	(59)	(121)	–	–	(3)	(3)
Expired arrangements	(111)	(84)	(351)	(546)	(81)	(21)	(136)	(238)
Closed accounts	(42)	(347)	(96)	(485)	(48)	(553)	(175)	(776)
Movements in the stock of forbearance loans	(24)	(138)	(35)	(197)	(22)	(98)	(85)	(205)
At 31 December	255	1,006	766	2,027	641	1,311	1,236	3,188
United Kingdom								
At 1 January	3	49	45	97	7	84	56	147
Implementation of definition of default policy	6	5	18	29	–	–	–	–
Additions	1	5	6	12	1	9	19	29
Write-offs	–	(1)	–	(1)	–	–	–	–
Expired arrangements	(5)	(3)	(12)	(20)	–	(2)	(1)	(3)
Closed accounts	(1)	(8)	(18)	(27)	(1)	(12)	(7)	(20)
Movements in the stock of forbearance loans	–	(12)	(5)	(17)	(3)	(8)	(3)	(14)
Disposals	–	–	–	–	(1)	(19)	(17)	(37)
Exchange translation adjustments	–	–	–	–	–	(3)	(2)	(5)
At 31 December	4	35	34	73	3	49	45	97
Total								
At 1 January	644	1,360	1,281	3,285	615	1,946	1,583	4,144
Implementation of definition of default policy	(205)	71	(4)	(138)	–	–	–	–
Additions	36	247	110	393	189	166	149	504
Fundamental restructures - valuation adjustments	(11)	(4)	(11)	(26)	(4)	(36)	(22)	(62)
Write-offs	(22)	(41)	(59)	(122)	–	–	(3)	(3)
Expired arrangements	(116)	(87)	(363)	(566)	(81)	(23)	(137)	(241)
Closed accounts	(43)	(355)	(114)	(512)	(49)	(565)	(182)	(796)
Movements in the stock of forbearance loans	(24)	(150)	(40)	(214)	(25)	(106)	(88)	(219)
Disposals	–	–	–	–	(1)	(19)	(17)	(37)
Exchange translation adjustments	–	–	–	–	–	(3)	(2)	(5)
At 31 December	259	1,041	800	2,100	644	1,360	1,281	3,285

In line with the implementation of the new definition of default policy, the Group enhanced the modification and forbearance data which resulted in € 0.1 billion of loans being removed from the stock of forbearance as at 1 January 2018.

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

Forbearance

Non-mortgage subject to forbearance measures by type of forbearance

The following table sets out an analysis of non-mortgage forbearance solutions at 31 December 2018. Comparative data for December 2017 has been prepared under IAS 39.

2018						
	At amortised cost					
	Total	Stage 1	Stage 2	Stage 3	POCI	Loss allowance
	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m	Balance € m
Other personal						
Interest only	40	–	5	35	–	17
Reduced payment	13	–	2	11	–	6
Payment moratorium	18	–	9	9	–	7
Arrears capitalisation	12	–	3	9	–	3
Term extension	34	–	15	19	–	10
Fundamental restructure	35	4	2	29	–	16
Restructure	87	–	32	55	–	30
Asset disposals	20	–	–	20	–	4
Other	–	–	–	–	–	–
Total	259	4	68	187	–	93
Property and construction						
Interest only	102	1	11	90	–	30
Reduced payment	41	–	5	36	–	7
Payment moratorium	7	–	1	6	–	2
Arrears capitalisation	23	2	6	15	–	9
Term extension	144	2	31	111	–	36
Fundamental restructure	298	143	–	155	–	61
Restructure	355	162	53	140	–	46
Asset disposals	52	–	1	51	–	10
Other	19	7	1	9	2	3
Total	1,041	317	109	613	2	204
Non-property business						
Interest only	110	–	34	76	–	33
Reduced payment	38	–	7	31	–	13
Payment moratorium	8	–	1	7	–	2
Arrears capitalisation	13	–	2	11	–	6
Term extension	94	–	47	47	–	16
Fundamental restructure	201	51	50	100	–	49
Restructure	287	–	117	170	–	82
Asset disposals	41	4	–	37	–	9
Other	8	2	2	4	–	1
Total	800	57	260	483	–	211
Total non-mortgage forbearance	2,100	378	437	1,283	2	508
Of which: Performing	623	186	437	–	–	77
Non-performing	1,477	192	–	1,283	2	431

The Group has treatment strategies for customers in the non-mortgage portfolio who are experiencing financial difficulties and who require a restructure. The approach has been to develop strategies on an asset class basis, and to then apply those strategies at the customer level to deliver a holistic debt management solution. The approach is based on assessing the affordability level of the customer, and then applying asset based treatment strategies to determine the long-term levels of sustainable and unsustainable debt. Further information on non-mortgage forbearance is included on page 80.

Non-retail customers in difficulty typically have exposures across a number of asset classes including SME debt, associated property exposures and residential mortgages.

3.2 Additional credit quality and forbearance disclosures on loans and advances to customers
Forbearance
Non-mortgage subject to forbearance measures by type of forbearance *(continued)*

						2017
	Total € m	Loans neither > 90 days in arrears nor impaired € m	Loans > 90 days in arrears but not impaired € m	Impaired loans € m	Specific provisions on impaired loans € m	Specific provision cover %
Other personal						
Interest only	37	18	8	11	7	69.6
Reduced payment	20	9	3	8	5	63.1
Payment moratorium	161	157	–	4	3	65.0
Arrears capitalisation	15	5	1	9	2	23.2
Term extension	171	158	4	9	6	70.8
Fundamental restructure	44	26	1	17	7	42.1
Restructure	151	89	7	55	28	50.7
Asset disposals	42	7	5	30	7	24.9
Other	3	2	–	1	1	67.7
Total	644	471	29	144	66	46.4
Property and construction						
Interest only	120	43	15	62	35	54.4
Reduced payment	69	43	9	17	7	43.4
Payment moratorium	9	4	3	2	1	51.1
Arrears capitalisation	35	13	1	21	10	45.7
Term extension	120	68	4	48	31	65.4
Fundamental restructure	582	424	18	140	42	30.3
Restructure	296	168	12	116	53	45.6
Asset disposals	92	55	6	31	13	43.8
Other	37	19	1	17	8	44.4
Total	1,360	837	69	454	200	43.9
Non-property business						
Interest only	122	86	7	29	18	61.0
Reduced payment	54	23	5	26	16	63.5
Payment moratorium	23	12	1	10	2	20.4
Arrears capitalisation	21	4	1	16	9	55.1
Term extension	135	113	4	18	11	61.3
Fundamental restructure	455	377	5	73	25	34.3
Restructure	408	244	30	134	72	53.9
Asset disposals	32	19	2	11	6	56.0
Other	31	20	1	10	4	37.8
Total	1,281	898	56	327	163	49.9
Total non-mortgage forbearance	3,285	2,206	154	925	429	46.4

At 31 December 2018, non-mortgage loans subject to forbearance amounted to € 2.1 billion, of which € 1.5 billion are non-performing with ECL cover of 29%. The majority of these forborne loans are in property and construction (€ 1.0 billion) and non-property business (€ 0.8 billion). Within non-mortgage forbearance categories, 'Fundamental restructure' (€ 0.5 billion in total) includes long-term solutions where customers have been through a full review, have proven sustainable cash flows/repayment capacity (through business cash flow and/or asset sales) and their debt has been restructured. Loans to borrowers that are fundamentally restructured typically result in the original loans, together with any related impairment allowance, being derecognised and new facilities being classified as loans and advances and recognised on day 1 at fair value but will remain classified as non-performing.

3.2 Additional credit quality and forbearance disclosures on loans and advances to customers
Forbearance
Non-mortgage *(continued)*

At the time the fundamental restructure is agreed, the size of the main facility reflects the estimated sustainable cash flows from the customer, such that the main facility will be repaid in full. Since no further cash flows are expected on the secondary facilities, the fair value of secondary facilities at inception is considered immaterial.

While the new facilities are subject to legal agreements, the repayment conditions attaching to each facility are different and usually customer specific. Depending on the co-operation of the customer and the repayment of the main facilities, additional cash flows over the initial cash flow estimation may subsequently arise. This could occur where the disposal of collateral is at higher values than originally expected, stronger trading performance or new sources of income. There are incentives from a customer perspective to meet the repayment terms of the main facility as in doing so would result in some cases where the secondary facilities would be contractually written-off.

As part of its ongoing monitoring of fundamental restructure loans, the Group keeps under review the likelihood of any additional cash flows arising on the secondary facilities. There remains significant uncertainty over the crystallisation of such additional cash flows through asset sales in excess of those initially estimated that would be applied to secondary facilities over an extended period. In the case of other restructured lending, additional cash flows materialising either through trading conditions or other sources of income are equally uncertain.

Additional cash flows received have resulted in income of € 84 million, being the net gain on other financial assets measured at FVTPL in the year to 31 December 2018 (31 December 2017: € 137 million) due to continued strong levels of asset sales.

At 31 December 2018, the carrying value of the main facilities in fundamental restructures, including buy-to-let mortgages, amounted to € 0.6 billion (31 December 2017: € 1.2 billion).

Main facilities that rely principally on the realisation of collateral (property assets held as security) are as follows:
- Buy-to-let of € 56 million, which has associated contractual secondary facilities of € 174 million (31 December 2017: € 111 million and € 144 million respectively).
- Property and construction of € 298 million, which has associated contractual secondary facilities of € 1,787 million (31 December 2017: € 466 million and € 1,676 million respectively) which are further analysed as:
  - Commercial real estate primary facilities of € 240 million, which have associated contractual secondary facilities of € 915 million (31 December 2017: € 374 million and € 873 million respectively).
  - Land and development primary facilities of € 58 million, which have associated contractual secondary facilities of € 872 million (31 December 2017: € 92 million and € 803 million respectively).

Non-property business lending and other personal lending where fundamental restructures have been granted amount to € 236 million which have associated secondary facilities of € 825 million (31 December 2017: € 478 million and € 724 million respectively).

The ‘Restructure’ category (€ 0.7 billion) includes some longer-term/permanent solutions where the existing customer debt was deemed to be sustainable post-restructuring. The solutions offered include interest only with asset disposal or bullet/fixed payment, debt consolidation, amongst others. This category also includes cases which were restructured prior to the current treatment strategies being developed. Some of these cases may yet qualify for a ‘Fundamental restructure’ following a full review of sustainable repayment capacity.

The remaining forbearance categories include borrowers who have received a term extension and borrowers who have been afforded temporary forbearance measures which, depending on performance, may in time move out of forbearance or qualify for a more permanent forbearance solution.

During 2018, the stock of non-mortgage forbearance loans reduced by € 1,187 million, with new forborne borrowers (€ 394 million) being offset by reductions due to expired and closed forbearance arrangements and repayments.

3.3 Restructure execution risk

A restructure execution risk exists whereby the Group's restructuring activity may not be executed in line with Management's expectations. The Group has reduced its non-performing loans from € 29 billion at December 2013 to € 6.1 billion as at 31 December 2018. A significant element of this reduction has been achieved by working with customers in difficulty to deliver sustainable solutions based on a wide range of customer restructuring options. This approach has materially improved the Group's asset quality, and lowered the overall credit risk profile. The Group continues to implement solutions for customers who fully engage.

Criticised and non-performing loans are managed through the restructuring lifecycle in line with the Group's credit strategies, policies, and implementation guidelines. A wide range of monitoring procedures are in place to manage loan portfolios, including restructured loans. The Group regularly reviews the performance of these loans through dedicated teams who focus on asset sales, covenants and milestones within the restructured portfolio. The reduction of non-performing loans continues to be a key focus for the Group going forward.

3.4 Funding and liquidity risk

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

The objective of liquidity management is to ensure that, at all times, the Group holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties at an economic price.

Risk identification and assessment

Funding and liquidity risk is measured and controlled using a range of metrics and methodologies including, Liquidity Stress Testing and ensuring adherence to limits based on the regulatory defined liquidity ratios, the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). Liquidity stress testing consists of applying severe but plausible stresses to the Group's liquidity buffer through time in order to simulate a survival period. The simulated survival period is a key risk metric and is controlled using Board approved limits. The LCR is designed to promote short term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for 30 days. The NSFR has a time horizon of one year and has been developed to promote a sustainable maturity structure of assets and liabilities.

Risk management and mitigation*

The Group's Asset and Liability Committee ("ALCo") is a sub-committee of the Leadership Team/Executive Committee and has a decision making and risk governance mandate in relation to the Group's strategic balance sheet management including the management of funding and liquidity risk. The ALCo is responsible for approving the liquidity risk management control structures, for approving liquidity risk limits, for monitoring adherence to these limits and making decisions on risk positions where necessary and for approving liquidity risk measurement methodologies.

The Group operates a three lines of defence model for risk management. For Funding and Liquidity Risk, the first line comprises of the Finance and Treasury functions which comprises the Group's Finance department. The Group's Finance department, reporting to the CFO, is the owner of the Group's Funding and Liquidity plan which sets out the strategy for funding and liquidity management for the Group and is responsible for providing the necessary information for the management of the Group's liquidity gap and the efficient management of the liquidity buffer by Treasury. This involves the identification, measurement and reporting of funding and liquidity risk and the application of behavioural adjustments to assets and liabilities.

The Group's Treasury function, reporting to the CFO, is responsible for the day-to-day management of liquidity to meet payment obligations, execution of wholesale funding requirements in line with the Funding and Liquidity Plan and the management of the foreign exchange funding gap.

First line management of funding and liquidity risk consists of:
- firstly, through the Group's active management of its liability maturity profile, it aims to ensure a balanced spread of repayment obligations with a key focus on periods up to 1 month. Monitoring ratios also apply to longer periods for long term funding stability;
- secondly, the Group aims to maintain a stock of high quality liquid assets to meet its obligations as they fall due. Discounts are applied to these assets based upon their cash-equivalent and price sensitivity; and
- finally, net inflows and outflows are monitored on a daily basis.

The Financial Risk function, reporting to the CRO is responsible for exercising independent risk oversight over the Group's funding and liquidity management. Financial Risk provides oversight on the effectiveness of the risk and control environment. It proposes and maintains the Funding and Liquidity Risk Framework and supporting Policy as the basis of the Group's control architecture for funding and liquidity risk activities, including the annual agreement of funding and liquidity risk limits (subject to the Board approved Risk Appetite Statement). The Financial Risk function is also responsible for the integrity of the Group's liquidity risk methodologies.

Group Internal Audit provides third line assurance on Funding and Liquidity Risk.

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

*Forms an integral part of the audited financial statements

3.4 Funding and liquidity risk

Risk monitoring and reporting*

The Group funding and liquidity position is reported regularly to Treasury, Finance and Risk, ALCo, the Executive Risk Committee ("ERC") and Board Risk Committee ("BRC"). In addition, the Executive Committee/Leadership Team and the Board are briefed on funding and liquidity on an ongoing basis.

At 31 December 2018, the Group held € 29,896 million (2017: € 26,850 million) in qualifying liquid assets ("QLA")[(1)]/contingent funding of which € 5,391 million (2017: € 7,859 million) was not available due to repurchase, secured loans and other restrictions. The available Group liquidity pool comprises the remainder and is held to cover contractual and stress outflows. At 31 December 2018, the Group liquidity pool was € 24,505 million (2017: € 18,991 million). During 2018, the liquidity pool ranged from € 18,471 million to € 25,548 million and the average balance was € 21,102 million.

[(1)]QLA is an asset that can be readily converted into cash, either with the market or with the monetary authorities, and where there is no legal, operational or prudential impediments to their use as liquid assets.

Composition of the Group liquidity pool

The following table shows the composition of the Group's liquidity pool at 31 December 2018 and 2017:

	2018				2017			
		Liquidity pool available (ECB eligible)	High Quality Liquid Assets(HQLA)[(1)] in the liquidity pool			Liquidity pool available (ECB eligible)	High Quality Liquid Assets(HQLA)[(1)] in the liquidity pool	
	Liquidity pool € m	€ m	Level 1 € m	Level 2 € m	Liquidity pool € m	€ m	Level 1 € m	Level 2 € m
Cash and deposits with central banks	1,937[(2)]	–	4,063[(2)]	–	1,485[(2)]	–	3,700[(2)]	–
Total government bonds	8,626	8,112	8,428	198	9,570	9,177	9,423	147
Other:								
Covered bonds	4,153	4,153	3,103	1,050	3,259	3,034	2,534	724
Other	9,789	9,011	323	296	4,677	4,387	302	249
Total other	13,942	13,164	3,426	1,346	7,936	7,421	2,836	973
Total	24,505	21,276	15,917	1,544	18,991	16,598	15,959	1,120
Of which:								
EUR	22,143				18,236			
GBP	935				149			
USD	1,427				606			
Other	–				–			

[(1)]Level 1 - High Quality Liquid Assets ("HQLAs") include amongst others, domestic currency (euro) denominated bonds issued or guaranteed by European Economic Area ("EEA") sovereigns, very highly rated covered bonds, other very highly rated sovereign bonds and unencumbered cash at central banks. Level 2 - HQLAs include highly rated sovereign bonds, highly rated covered bonds and certain other strongly rated securities.

[(2)]For Liquidity Coverage Ratio ("LCR") purposes, assets outside the Liquidity function's control can qualify as HQLAs in so far as they match outflows in the same jurisdiction. For the Group, this means that UK HQLAs (cash held with the Bank of England) can qualify up to the amount of 30 days UK outflows under LCR but are not included in the Group's calculation of available QLA stocks.

Management of the Group liquidity pool*

AIB manages the liquidity pool on a centralised basis. The composition of the liquidity pool is subject to limits set by the Board and the independent Risk function. These pool assets primarily comprise government guaranteed bonds, internal covered bonds and central bank reserves. AIB's liquidity buffer increased in 2018 by € 5,514 million which was predominantly due to an increase in the Republic of Ireland customer deposits and senior unsecured note issuances during the year.

Other contingent liquidity*

AIB 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.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.4 Funding and liquidity risk

Liquidity risk stress testing

Stress testing is a key component of the liquidity risk management framework and ILAAP. The Group undertakes liquidity stress testing as a key liquidity control. These stress tests include both firm specific and systemic risk events and a combination of both. Stressed assumptions are applied to the Group's liquidity buffer and liquidity risk drivers. The purpose of these tests is to ensure the continued stability of the Group's liquidity position within the Group's pre-defined liquidity risk tolerance levels.

The Group has established the Contingency Funding Plan ("CFP") which is designed to ensure that the Group can manage its business in stressed liquidity conditions and restore its liquidity position should there be a major stress event.

Liquidity stress test results are reported to the ALCo, Leadership Team/Executive Committee and Board, and to other committees. If the Board approved survival limit is breached, the CFP will be activated. The CFP can also be activated by management decision independently of the stress tests. The CFP is a key element in the formulation of the Group's Recovery Plan in relation to funding and liquidity.

Liquidity regulation

AIB Group is required to comply with the liquidity requirements of the Single Supervisory Mechanism/Central Bank of Ireland and also with the requirements of local regulators in jurisdictions in which it operates. In addition, the Group is required to carry out liquidity stress testing capturing firm specific, systemic risk events and a combination of both. AIB adheres to these requirements.

The Group monitors and reports its current and forecast position against CRD IV related and other related liquidity metrics. The following table outlines the LCR, NSFR and Loan to Deposit Ratio (LDR) at 31 December 2018 and 2017.

Liquidity metrics	2018 %	2017 %
Liquidity Coverage Ratio	128	132
Net Stable Funding Ratio	125	123
Loan to Deposit Ratio	90	93

The Group has fully complied with the minimum LCR requirement of 100% during 2018.

A minimum NSFR requirement of 100% was scheduled to be introduced from 1 January 2018 and AIB is awaiting further developments in this regard. The calculated NSFR is based on the Group's interpretation of the Basel standard.

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 reduce the probability of a liquidity stress, i.e. an inability to meet funding obligations as they fall due.

Sources of funds	31 December 2018 € m	31 December 2018 %	31 December 2017 € m	31 December 2017 %
Customer accounts	67,699	76	64,572	74
Of which:				
Euro	54,885		51,773	
Sterling	11,001		11,065	
US dollar	1,698		1,642	
Other currencies	115		92	
Deposits by central banks and banks – secured	424	1	2,801	3
– unsecured	420	1	839	1
Certificates of deposit and commercial paper	–	–	–	–
Asset covered securities ("ACS")	3,090	3	3,590	4
Asset backed securities ("ABS")	–	–	–	–
Senior debt	2,655	3	1,000	1
Capital	14,653	16	14,404	17
Total source of funds	88,941	100	87,206	100
Other	2,595		2,856	
	91,536		90,062	

*Forms an integral part of the audited financial statements

3.4 Funding and liquidity risk

Funding structure* *(continued)*

Customer deposits represent the largest source of funding for the Group with the core retail franchises and accompanying deposit base in both the Republic of Ireland and the UK providing a stable and reasonably predictable source of funds. Customer accounts increased by € 3,127 million in 2018. This was mainly due to a € 3,112 million increase in Euro deposits, primarily in credit current accounts reflecting strong economic activity and inflows as a result of a competitor exiting the market.

The management of stable retail funds is paramount to the Group's overall funding and liquidity strategy and will be a key factor in the Group's capacity for future asset growth.

The Group maintains access to a variety of sources of wholesale funds, including those available from money markets, repo markets and term investors.

The Group fully repaid outstanding Targeted Longer Term refinancing Operations ("TLTRO") of € 1,900 million during the year.

On 22 March 2018, AIB Group plc issued € 500 million Senior Unsecured 1.5% Notes maturing on 29 March 2023. On 3 July 2018, AIB Group plc issued € 500 million Senior Unsecured 2.25% Notes maturing on 3 July 2025. On 12 October 2018, AIB Group plc issued US $ 750 million unsecured 4.75% notes maturing on 12 October 2023.

In 2018, the Group did not issue debt securities under the short-term commercial paper programme.

Outstanding asset covered securities ("ACS") decreased from € 3,590 million at 31 December 2017 to € 3,090 million at 31 December 2018 due to contractual maturities.

Composition of wholesale funding*

At 31 December 2018, total wholesale funding outstanding was € 7,384 million (2017: € 9,023 million). € 1,130 million of wholesale funding matures in less than one year (2017: € 2,240 million). € 6,254 million of wholesale funding has a residual maturity of over one year (2017: € 6,783 million).

Outstanding wholesale funding comprised € 3,514 million in secured funding (2017: € 6,891 million) and € 3,870 million in unsecured funding (2017: € 2,132 million).

									2018
	< 1 month € m	1–3 months € m	3–6 months € m	6–12 months € m	Total < 1 year € m	1–3 years € m	3–5 years € m	> 5 years € m	Total € m
Deposits by central banks and banks	325	240	–	–	565	–	279	–	844
Senior debt	–	–	500	–	500	500	1,155	500	2,655
ACS/ABS	–	–	–	65	65	1,250	1,750	25	3,090
Subordinated liabilities and other capital instruments	–	–	–	–	–	–	–	795	795
Total 31 December	325	240	500	65	1,130	1,750	3,184	1,320	7,384
Of which:									
Secured	81	64	–	65	210	1,250	2,029	25	3,514
Unsecured	244	176	500	–	920	500	1,155	1,295	3,870
	325	240	500	65	1,130	1,750	3,184	1,320	7,384

									2017
	< 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	1,029	544	167	–	1,740	1,900	–	–	3,640
Senior debt	–	–	–	–	–	1,000	–	–	1,000
ACS/ABS	–	–	–	500	500	815	1,250	1,025	3,590
Subordinated liabilities and other capital instruments	–	–	–	–	–	–	–	793	793
Total 31 December	1,029	544	167	500	2,240	3,715	1,250	1,818	9,023
Of which:									
Secured	690	544	167	500	1,901	2,715	1,250	1,025	6,891
Unsecured	339	–	–	–	339	1,000	–	793	2,132
	1,029	544	167	500	2,240	3,715	1,250	1,818	9,023

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.4 Funding and liquidity risk

Currency composition of wholesale debt

At 31 December 2018, 82% (2017: 89%) of wholesale funding was in euro with the remainder held in GBP and USD. AIB manages cross-currency refinancing risk to foreign exchange cash flow limits.

					2018					2017
	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	186	284	374	–	844	2,669	202	769	–	3,640
Senior debt	2,000	–	655	–	2,655	1,000	–	–	–	1,000
ACS/ABS	3,090	–	–	–	3,090	3,590	–	–	–	3,590
Subordinated liabilities and other capital instruments	760	35	–	–	795	760	33	–	–	793
Total wholesale funding	6,036	319	1,029	–	7,384	8,019	235	769	–	9,023
% of total funding	%	%	%	%	%	%	%	%	%	%
	82	4	14	–	100	89	2	9	–	100

Encumbrance

An asset is defined as encumbered if it has been pledged as collateral, and as a result is no longer available to the Group to secure funding, satisfy collateral needs or to be sold. The Group manages encumbrance levels to ensure that the Group has sufficient contingent collateral to maximise balance sheet flexibility.

The Group had an encumbrance ratio of 12% at 31 December 2018 (2017: 14%) with € 11,103 million of the Group's assets encumbered (2017: € 12,612 billion). This represents a 2% decrease over the year due mainly to a reduction in the funding requirement of the Group. The encumbrance level is based on the amount of assets that are required in order to meet regulatory and contractual commitments.

Interbank repurchase agreements and ECB refinancing operations

The following table analyses the interbank repurchase agreements and ECB refinancing operations as at 31 December 2018 and 2017:

				2018				2017
	<1 month € m	1–3 months € m	>3 months € m	Total € m	<1 month € m	1–3 months € m	>3 months € m	Total € m
Highly liquid	81	64	–	145	562	177	129	868
Less liquid	–	–	–	–	–	33	1,900	1,933
Maturity profile	81	64	–	145	562	210	2,029	2,801

3.4 Funding and liquidity risk

Financial assets and financial liabilities by contractual residual maturity*

The following table analyses financial assets and financial liabilities by contractual residual maturity at 31 December 2018 and 2017:

						2018
	On demand	**<3 months but not on demand**	**3 months to 1 year**	**1–5 years**	**Over 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Financial assets						
Derivative financial instruments(1)	**–**	**22**	**39**	**212**	**627**	**900**
Loans and advances to banks(2)	**1,440**	**3**	**–**	**–**	**–**	**1,443**
Loans and advances to customers(2)	**4,647**	**626**	**2,655**	**15,832**	**39,147**	**62,907**
Investment securities(3)	**–**	**387**	**2,751**	**8,974**	**4,021**	**16,133**
Other financial assets	**–**	**640**	**–**	**–**	**–**	**640**
	6,087	**1,678**	**5,445**	**25,018**	**43,795**	**82,023**
Financial liabilities						
Deposits by central banks and banks	**246**	**319**	**–**	**279**	**–**	**844**
Customer accounts	**52,509**	**9,573**	**3,866**	**1,710**	**41**	**67,699**
Derivative financial instruments(1)	**–**	**22**	**129**	**194**	**589**	**934**
Debt securities in issue	**–**	**–**	**565**	**4,655**	**525**	**5,745**
Subordinated liabilities and other capital instruments	**–**	**–**	**–**	**–**	**795**	**795**
Other financial liabilities	**1,074**	**–**	**–**	**–**	**–**	**1,074**
	53,829	**9,914**	**4,560**	**6,838**	**1,950**	**77,091**

						2017
	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						
Trading portfolio financial assets(4)	–	–	–	18	14	32
Derivative financial instruments(1)	–	77	64	326	689	1,156
Loans and advances to banks(2)	1,306	6	1	–	–	1,313
Loans and advances to customers(2)	8,125	671	2,554	13,887	38,101	63,338
Financial investments available for sale(3)	–	118	1,443	9,427	4,654	15,642
Other financial assets	–	736	–	–	–	736
	9,431	1,608	4,062	23,658	43,458	82,217
Financial liabilities						
Deposits by central banks and banks	241	1,332	167	1,900	–	3,640
Customer accounts	47,168	10,727	4,880	1,666	131	64,572
Trading portfolio financial liabilities(4)	–	–	–	4	26	30
Derivative financial instruments(1)	3	58	39	369	701	1,170
Debt securities in issue	–	–	500	3,065	1,025	4,590
Subordinated liabilities and other capital instruments	–	–	–	–	793	793
Other financial liabilities	1,061	–	–	–	–	1,061
	48,473	12,117	5,586	7,004	2,676	75,856

(1)Shown by maturity date of contract.

(2)Shown gross of expected credit losses.

(3)Excluding equity shares.

(4)Trading portfolio financial assets and liabilities are shown in the above table based on their contractual maturity. However, in the 'Undiscounted contractual maturity' table trading portfolio liabilities are shown in the 'on demand' bucket reflecting their nature. Trading portfolio financial assets are shown excluding equity shares.

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.4 Funding and liquidity risk

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 2018 and 2017:

						2018
	On demand	**<3 months but not on demand**	**3 months to 1 year**	**1–5 years**	**Over 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Financial liabilities						
Deposits by central banks and banks	**246**	**329**	**2**	**284**	**–**	**861**
Customer accounts	**52,509**	**9,604**	**3,884**	**1,721**	**41**	**67,759**
Derivative financial instruments	**–**	**70**	**259**	**361**	**314**	**1,004**
Debt securities in issue	**–**	**48**	**618**	**4,942**	**556**	**6,164**
Subordinated liabilities and other capital instruments	**–**	**–**	**31**	**115**	**957**	**1,103**
Other financial liabilities	**1,074**	**–**	**–**	**–**	**–**	**1,074**
	53,829	**10,051**	**4,794**	**7,423**	**1,868**	**77,965**

						2017
	On demand	<3 months but not on demand	3 months to 1 year	1–5 years	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Financial liabilities						
Deposits by central banks and banks	241	1,342	168	1,900	–	3,651
Customer accounts	47,168	10,792	4,901	1,685	132	64,678
Trading portfolio financial liabilities	–	–	–	4	26	30
Derivative financial instruments	–	73	195	497	454	1,219
Debt securities in issue	–	33	538	3,197	1,043	4,811
Subordinated liabilities and other capital instruments	–	–	31	117	958	1,106
Other financial liabilities	1,061	–	–	–	–	1,061
	48,470	12,240	5,833	7,400	2,613	76,556

*Forms an integral part of the audited financial statements

3.4 Funding and liquidity risk

Financial liabilities by undiscounted contractual maturity* *(continued)*

The undiscounted cash flows potentially payable under guarantees and similar contracts

The undiscounted cash flows potentially payable under guarantees and similar contracts, included below within contingent liabilities, are classified on the basis of the earliest date the facilities can be called. The Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet their obligations. The Group expects that most guarantees it provides will expire unused.

The Group has given commitments to provide funds to customers under undrawn facilities. The undiscounted cash flows have been classified on the basis of the earliest date that the facility can be drawn. The Group does not expect all facilities to be drawn, and some may lapse before drawdown.

The following table analyses undiscounted cash flows potentially payable under guarantees and similar contracts at 31 December 2018 and 2017:

						2018
	On demand	**<3 months but not on demand**	**3 months to 1 year**	**1–5 years**	**Over 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Contingent liabilities	**780**	**–**	**–**	**–**	**–**	**780**
Commitments	**11,107**	**–**	**–**	**–**	**–**	**11,107**
	11,887	**–**	**–**	**–**	**–**	**11,887**

						2017
	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	880	–	–	–	–	880
Commitments	10,231	–	–	–	–	10,231
	11,111	–	–	–	–	11,111

Analysis of loans and advances to customers by contractual residual maturity and interest rate sensitivity

The following table analyses gross loans and advances to customers by contractual residual maturity and interest rate sensitivity at 31 December 2018 and 2017. Overdrafts, which in the aggregate represent approximately 2% of the portfolio at 31 December 2018, are classified as repayable within one year. Approximately 13% of AIB Group's loan portfolio is provided on a fixed rate basis. Fixed rate loans are defined as those loans for which the interest rate is fixed for the full term of the loan. The interest rate risk exposure is managed within agreed policy parameters. The geographical concentrations are based primarily on the location of the office recording the transaction.

							2018
	Fixed rate	**Variable rate**	**Total**	**Within 1 year**	**After 1 year but within 5 years**	**After 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Republic of Ireland	**7,579**	**46,711**	**54,290**	**7,099**	**11,434**	**35,758**	**54,291**
United Kingdom	**807**	**7,730**	**8,537**	**823**	**4,324**	**3,389**	**8,536**
Rest of the World	**–**	**80**	**80**	**6**	**74**	**–**	**80**
Total	**8,386**	**54,521**	**62,907**	**7,928**	**15,832**	**39,147**	**62,907**

							2017
	Fixed rate	Variable rate	Total	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Republic of Ireland	5,662	49,064	54,726	10,186	10,036	34,504	54,726
United Kingdom	753	7,786	8,539	1,154	3,788	3,597	8,539
Rest of the World	–	73	73	10	63	–	73
Total	6,415	56,923	63,338	11,350	13,887	38,101	63,338

*Forms an integral part of the audited financial statements

Risk management – 3. Individual risk types

3.5 Capital adequacy risk*

Capital adequacy risk is defined as the risk that the Group breaches or may breach regulatory capital ratios and internal targets. The key material risks impacting on the capital adequacy position of the Group is credit risk, although it should be noted that all material risks can, to some degree, impact capital ratios.

Risk identification and assessment

The key processes through which capital adequacy risk is evaluated are the Internal Capital Adequacy Assessment Process ("ICAAP") and quarterly stress tests, both of which are subject to supervisory review and evaluation. The key stages in the ICAAP process are as follows:

- A Risk Appetite Statement is reviewed and approved by the Board annually which contains lending and other limits to mitigate against the risk of excessive leverage;
- Business Strategy is set consistent with risk appetite which underpins the annual financial planning process;
- Performance against the Business and Financial Plan and risk appetite is monitored monthly;
- An annual material risk assessment which identifies all relevant (current and anticipated) risks and those that require capital adequacy assessment;
- Financial Planning drives the level of required capital to support growth plans and meet regulatory requirements. Base and stress capital plans are produced as part of the integrated financial planning process;
- Scenario analysis and stress testing is applied to capital plans and to all material risks in order to assess the resilience of the Group and inform capital needs as they arise. Stress testing is also applied to assess the viability of management actions in the ICAAP, the Capital Contingency Plan and the Recovery Plan;
- Reverse stress tests are undertaken to determine scenarios that could lead to a pre-defined breach of capital ratios;
- The final stage of the ICAAP is the creation of base and stressed capital plans over a three year timeframe, comparing the capital requirements to available capital. This is fully integrated with the Group's financial planning process and ensures that the Group has adequate capital resources in excess of minimum regulatory and internal capital requirements.

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

The ICAAP process is supported by a programme of quarterly stress testing which serves to ensure that the Group's assessment of capital adequacy is dynamic and responsive to changes in such factors as balance sheet size, business mix and the macroeconomic and financial market outlook.

Risk management and mitigation

The ICAAP is fully integrated and embedded in the strategic, financial and risk management processes of the Group. An ICAAP Framework is in place which sets out the key processes, governance arrangements and roles and responsibilities which support the ICAAP. Embedding of the ICAAP is facilitated through capital planning, the setting of risk appetite and risk adjusted performance monitoring. In addition to the Capital Plan, a Capital Contingency Plan is in place which identifies and quantifies actions which are available to the Group in order to mitigate against the impact of a stress event. Trigger points at which these actions will be considered are also identified. A further set of triggers and capital options are set out in the Group's Recovery Plan, which presents the actions available to the Group to restore viability in the event of extreme stress. Finally, the Group has an approved capital allocation mechanism in place which seeks to ensure that capital is allocated on a risk-adjusted basis.

The Group uses Risk Adjusted Return on Capital ("RAROC") for capital allocation purposes and as a behavioural driver of sound risk management. The use of RAROC for portfolio management and in lending decisions continues to be an area of focus and a key consideration for pricing of lending products, both at portfolio level and individually for large transactions.

Risk monitoring and reporting

The Group monitors its capital adequacy on a monthly basis when a capital reporting pack is presented to senior executive and Board Committees setting out the evolution of the Group's capital position. The output of quarterly stress tests is reviewed by the Group's Asset and Liability Committee (ALCo) and on an annual basis an ICAAP Report is produced which is a comprehensive analysis of the Group's capital position in base and stress scenarios over a three year horizon. This document is reviewed and approved by the Board and is submitted to the Joint Supervisory Team, where it forms the basis of their Supervisory Review and Evaluation Process (SREP).

Further detail on the Group's capital management, together with its overall capital position can be found in the Capital Management section of the Annual Financial Report 2018.

*Forms an integral part of the audited financial statements

3.6 Financial risks* (a) Market risk

Market risk refers to the risk of income and capital losses arising from adverse movements in wholesale market prices. The Group assumes market risk through the following wholesale market risk factors: interest rates, foreign exchange rates, equity prices, inflation rates and credit spreads. Changes in customer behaviours and the relationship between wholesale and retail rates give rise to changes in the Group's exposure to market risk factors and are, therefore, also an important component of market risk.

The Group assumes market risk as a result of its banking and trading book activities.

Credit spread risk is the exposure of the Group's financial position to adverse movements in the credit spreads of bonds held in the trading or hold-to-collect-and-sell ("HTCS") securities portfolio. Credit spreads are defined as the difference between bond yields and interest rate swap rates of equivalent maturity. The HTCS bond portfolio is the principal source of credit spread risk.

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.

The Group also assumes market risk through its trading book activities which relate to all positions in financial instruments (principally derivatives) that are held with trading intent or in order to hedge positions held with trading intent. Risks associated with valuation adjustments such as credit value adjustment ("CVA") and funding value adjustment ("FVA") are managed by the trading unit in the Group's Treasury function.

The Group's Treasury function is responsible for managing market risk that has been transferred to it by the customer facing businesses and the Group's Asset and Liability Management ("ALM") function which exists within Finance. Treasury also has a mandate to trade on its own account in selected wholesale markets. The trading strategies employed by Treasury are desk and market specific with risk tolerances approved on an annual basis through the Group's Risk Appetite process.

Risk identification and assessment

Market risk is identified and assessed using portfolio sensitivities, Value at Risk ("VaR") and stress testing. Interest rate gaps and sensitivities to various risk factors are measured and reported on a daily basis. In terms of the VaR metric, the Group calculates a daily historical simulation VaR to a 95% confidence level, using a one day holding period and based on one year of historic data. The Group's VaR models are regularly back-tested to ensure robustness. In addition to VaR, Capital at Risk ("CaR") is also measured to a one[1] year time horizon, a 99% confidence level and a longer set of data.

Risk management and mitigation*

The Group Asset and Liability Committee ("ALCo") is a sub-committee of the Leadership Team and makes decisions on the management of the Group's assets and liabilities (including the management of capital, funding and liquidity, and net interest margin) and on the management of market risks (including structural foreign exchange hedging). ALCo monitors the Group's IRRBB and approves relevant policies, limits, behavioural assumptions and the Market Risk Strategy and Appetite Statement. The Group operates a three lines of defence model for risk management. In terms of market risk the first line comprises the Finance and Treasury functions.

Finance is responsible for the identification and the transfer of market risk to Treasury, and making structural market risk management recommendations to ALCo. This function is also responsible for the reporting the Group's aggregate market risk profile and managing the Group's financial instruments valuation processes.

The Financial Risk function, reporting to the Chief Risk Officer ("CRO") provides second line assurance. Financial Risk is responsible for exercising independent risk oversight and control over the Group's market risk. In particular, Financial Risk provides oversight on the integrity and effectiveness of the risk and control environment. It proposes and maintains the Market Risk Management Framework and Policies as the basis of the Group's control architecture for market risk activities, including the annual agreement of market risk limits (subject to the Board approved Risk Appetite Statement). The Financial Risk function is responsible for the development of the market risk measurement methodologies, and the Compliance function is responsible for the validation of the integrity of the market risk measurement methodologies.

Group Internal Audit provides third line assurance on market risk.

Market risk in the Group is transferred to and managed by Treasury, subject to Finance review and oversight by the Group ALCo. Treasury proactively manages the market risk on the Group's balance sheet, as well as providing risk management solutions to the core retail and corporate customers. Within Treasury, credit spread risk on the HTCS portfolio, IRRBB and trading risk are managed by separate front office teams.

[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.

*Forms an integral part of the audited financial statements

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

Market risk is managed against a range of Board approved VaR limits which cover market risk in the trading book, interest rate risk in the banking book and credit spread risk in the banking book. The Board approved limits are supplemented by a range of ALCo approved limits which include VaR limits, nominal and sensitivity limits and 'stop loss' limits. The first line documents an annual Market Risk Strategy and Appetite statement as part of the annual financial planning cycle which ensures market risk aligns with the Group's strategic business plan.

Market risk is managed subject to the Market Risk Management Framework and its associated policies. Credit risk issues inherent in the market risk portfolios are also subject to the credit risk framework that was described in the previous section.

Risk monitoring 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 Executive Risk Committee ("ERC") and Board Risk Committee ("BRC") on a monthly basis through the CRO Report.

The following table sets out financial assets and financial liabilities at 31 December 2018 and 2017 subject to market risk analysed between trading and non-trading portfolios, showing the principal market risks to which the assets and liabilities are exposed:

2018

		Market risk measures		
	Carrying amount € m	**Trading portfolios € m**	**Non-trading portfolios € m**	**Risk factors**
Assets subject to market risk				
Cash and balances at central banks	**6,516**	**–**	**6,516**	**Interest rate, foreign exchange**
Derivative financial instruments	**900**	**517**	**383**	**Interest rate, foreign exchange, credit spreads, equity, inflation swap rates**
Loans and advances to banks	**1,443**	**–**	**1,443**	**Interest rate, foreign exchange**
Loans and advances to customers	**60,868**	**–**	**60,868**	**Interest rate, foreign exchange**
Investment securities	**16,861**	**–**	**16,861**	**Interest rate, foreign exchange, credit spreads, equity**
Liabilities subject to market risk				
Deposits by central banks and banks	**844**	**–**	**844**	**Interest rate, foreign exchange**
Customer accounts	**67,699**	**–**	**67,699**	**Interest rate, foreign exchange**
Derivative financial instruments	**934**	**534**	**400**	**Interest rate, foreign exchange, credit spreads, equity, inflation swap rates**
Debt securities in issue	**5,745**	**–**	**5,745**	**Interest rate, credit spreads foreign exchange**
Subordinated liabilities and other capital instruments	**795**	**–**	**795**	**Interest rate, credit spreads**

2017

		Market risk measures		
	Carrying amount € m	Trading portfolios € m	Non-trading portfolios € m	Risk factors
Assets subject to market risk				
Cash and balances at central banks	6,364	–	6,364	Interest rate, foreign exchange
Trading portfolio financial assets	33	33	–	Equity, interest rate, credit spreads
Derivative financial instruments	1,156	613	543	Interest rate, foreign exchange, credit spreads, equity, inflation swap rates
Loans and advances to banks	1,313	–	1,313	Interest rate, foreign exchange
Loans and advances to customers	59,993	–	59,993	Interest rate, foreign exchange
Financial investments available for sale	16,321	–	16,321	Interest rate, foreign exchange, credit spreads, equity
Liabilities subject to market risk				
Deposits by central banks and banks	3,640	–	3,640	Interest rate, foreign exchange
Customer accounts	64,572	–	64,572	Interest rate, foreign exchange
Trading portfolio financial liabilities	30	30	–	Interest rate, credit spreads
Derivative financial instruments	1,170	663	507	Interest rate, foreign exchange, credit spreads, equity, inflation swap rates
Debt securities in issue	4,590	–	4,590	Interest rate, credit spreads, foreign exchange
Subordinated liabilities and other capital instruments	793	–	793	Interest rate, credit spreads

*Forms an integral part of the audited financial statements

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

Market risk profile

The table below shows the sensitivity of the Group's banking book to an immediate and sustained 100 basis point ("bp") movement in interest rates in terms of the impact on net interest income over a twelve month period:

Sensitivity of projected net interest income to interest rate movements	**2018 € m**	2017 € m
+ 100 basis point parallel move in all interest rates	**211**	129
– 100 basis point parallel move in all interest rates	**(245)**	(165)

The above sensitivity table is computed under the assumption that all market rates (Euribors/Swaps) move upwards in parallel, however, for upward rates only, the ECB refinancing rate increases by 50% of the market rates.

The interest rate sensitivity of the Group has increased during the year as a result of balance sheet change and reductions in strategic interest rate hedges being made throughout 2018.

The above analysis is subject to certain simplifying assumptions such as all interest rate movements occurring simultaneously. Additionally, it is assumed that no management action is taken in response to the rate movements.

The following table summarises Treasury's interest rate VaR profile to a 95% confidence level with a one day holding period for the financial years to 31 December 2018 and 2017. AIB recognises the limitations of VaR models, and supplements its VaR measures with stress tests which draw from a longer set of historical data and also with sensitivity measures.

	VaR (trading book)		VaR (banking book)		Total VaR	
	2018 € m	2017 € m	**2018 € m**	2017 € m	**2018 € m**	2017 € m
Interest rate risk						
1 day holding period:						
Average	**0.1**	0.1	**6.7**	4.3	**6.7**	4.4
High	**1.4**	0.5	**9.1**	5.4	**9.2**	5.4
Low	**–**	0.1	**3.5**	3.4	**3.7**	3.5
At 31 December	**0.1**	0.2	**8.1**	4.7	**8.2**	4.7

The following table sets out the VaR for foreign exchange rate and equity risk for the financial years to 31 December 2018 and 2017:

	Foreign exchange rate risk		Equity risk	
	VaR (trading book)		VaR (trading book)	
	2018 € m	2017 € m	**2018 € m**	2017 € m
1 day holding period:				
Average	**0.39**	0.04	**0.01**	0.03
High	**0.85**	0.33	**0.03**	0.16
Low	**0.06**	0.01	**–**	–
At 31 December	**0.24**	0.09	**–**	0.01

The low level of VaR in the trading book throughout 2018 is as a result of very small discretionary positions managed by Treasury. The higher banking book interest rate VaR is as a result of a more substantial level of interest rate risk existing in the Group's banking book.

*Forms an integral part of the audited financial statements

Interest rate sensitivity*

The net interest rate sensitivity of the Group at 31 December 2018 and 2017 is illustrated in the following table. The table sets out details of those assets and liabilities whose values are subject to change as interest rates change within each contractual repricing time period. Details regarding assets and liabilities which are not sensitive to interest rate movements are included within non-interest bearing or trading captions. The table shows the sensitivity of the statement of financial position at one point in time and is not necessarily indicative of positions at other dates. In developing the classifications used in the table, it has been necessary to make certain assumptions and approximations in assigning assets and liabilities to different repricing categories.

The fair value of derivative financial instruments is included within other assets and other liabilities as interest rate insensitive. However, some derivative instruments are derived from interest sensitive financial instruments, and are shown separately below.

Comparative data for 31 December 2017 has been prepared under IAS 39.

*Forms an integral part of the audited financial statements

3.6 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	2018* Total € m
Assets											
Loans and advances to banks	1,098	1	1	–	–	–	–	–	343	–	1,443
Loans and advances to customers	46,902	7,482	2,363	1,587	1,779	702	1,235	866	(2,048)	–	60,868
Investment securities	1,714	1,326	2,647	2,444	1,220	1,364	2,362	3,056	728	–	16,861
Other assets	5,908	–	–	–	–	–	–	–	5,939	517	12,364
Total assets	55,622	8,809	5,011	4,031	2,999	2,066	3,597	3,922	4,962	517	91,536
Liabilities											
Deposits by central banks and banks	605	239	–	–	–	–	–	–	–	–	844
Customer accounts	31,372	1,250	3,967	1,040	200	213	21	1	29,635	–	67,699
Debt securities in issue	–	–	565	1,250	500	750	2,155	525	–	–	5,745
Subordinated liabilities and other capital instruments	–	–	–	750	–	–	–	45	–	–	795
Other liabilities	–	–	–	–	–	–	–	–	2,061	534	2,595
Equity	–	–	–	–	–	–	–	–	13,858	–	13,858
Total liabilities and equity	31,977	1,489	4,532	3,040	700	963	2,176	571	45,554	534	91,536
Derivatives affecting interest rate sensitivity	5,617	107	859	235	(17)	(355)	(1,548)	(4,898)	–	–	
Interest sensitivity gap	18,028	7,213	(380)	756	2,316	1,458	2,969	8,249	(40,592)	(17)	
Cumulative interest sensitivity gap	18,028	25,241	24,861	25,617	27,933	29,391	32,360	40,609	17	–	
(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Interest sensitivity gap	15,661	4,773	(764)	589	2,110	1,261	2,765	7,698	(32,090)	(22)	
Cumulative interest sensitivity gap	15,661	20,434	19,670	20,259	22,369	23,630	26,395	34,093	2,003	1,981	
($ in euro equivalents)	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	
Interest sensitivity gap	889	(100)	(54)	3	(32)	(41)	48	9	(2,479)	16	
Cumulative interest sensitivity gap	889	789	735	738	706	665	713	722	(1,757)	(1,741)	
(£ in euro equivalents)	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	
Interest sensitivity gap	1,554	2,471	430	164	238	238	156	542	(6,603)	(11)	
Cumulative interest sensitivity gap	1,554	4,025	4,455	4,619	4,857	5,095	5,251	5,793	(810)	(821)	
(Other currencies in euro equivalents)	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	
Interest sensitivity gap	(76)	69	8	–	–	–	–	–	580	–	
Cumulative interest sensitivity gap	(76)	(7)	1	1	1	1	1	1	581	581	

*Forms an integral part of the audited financial statements

3.6 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	2017* Total € m
Assets											
Trading portfolio financial assets	–	–	–	–	–	–	–	–	–	33	33
Loans and advances to banks	938	2	1	–	–	–	–	–	372	–	1,313
Loans and advances to customers	50,302	6,631	2,156	1,134	1,191	687	540	772	(3,420)	–	59,993
Financial investments available for sale	307	692	1,479	3,584	2,488	1,412	1,571	4,109	679	–	16,321
Other assets	5,731	–	–	–	–	–	–	–	6,058	613	12,402
Total assets	57,278	7,325	3,636	4,718	3,679	2,099	2,111	4,881	3,689	646	90,062
Liabilities											
Deposits by central banks and banks	1,030	543	2,067	–	–	–	–	–	–	–	3,640
Customer accounts	26,771	2,440	4,892	819	445	205	7	16	28,977	–	64,572
Trading portfolio financial liabilities	–	–	–	–	–	–	–	–	–	30	30
Debt securities in issue	–	–	500	565	1,250	500	750	1,025	–	–	4,590
Subordinated liabilities and other capital instruments	–	–	–	–	750	–	–	43	–	–	793
Other liabilities	–	–	–	–	–	–	–	–	2,162	663	2,825
Equity	–	–	–	–	–	–	–	–	13,612	–	13,612
Total liabilities and equity	27,801	2,983	7,459	1,384	2,445	705	757	1,084	44,751	693	90,062
Derivatives affecting interest rate sensitivity	10,069	1,544	(2,834)	2,240	(1,889)	(2,161)	(1,896)	(5,073)	–	–	
Interest sensitivity gap	19,408	2,798	(989)	1,094	3,123	3,555	3,250	8,870	(41,062)	(47)	
Cumulative interest sensitivity gap	19,408	22,206	21,217	22,311	25,434	28,989	32,239	41,109	47	–	
(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Interest sensitivity gap	16,341	1,210	(1,572)	722	2,811	3,402	3,065	8,267	(32,745)	(32)	
Cumulative interest sensitivity gap	16,341	17,551	15,979	16,701	19,512	22,914	25,979	34,246	1,501	1,469	
($ in euro equivalents)	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	
Interest sensitivity gap	339	214	(78)	28	55	(89)	(57)	57	(1,665)	(2)	
Cumulative interest sensitivity gap	339	553	475	503	558	469	412	469	(1,196)	(1,198)	
(£ in euro equivalents)	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	
Interest sensitivity gap	2,756	1,354	664	344	257	242	242	546	(7,222)	(13)	
Cumulative interest sensitivity gap	2,756	4,110	4,774	5,118	5,375	5,617	5,859	6,405	(817)	(830)	
(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	(28)	20	(3)	–	–	–	–	–	570	–	
Cumulative interest sensitivity gap	(28)	(8)	(11)	(11)	(11)	(11)	(11)	(11)	559	559	

*Forms an integral part of the audited financial statements

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

Structural foreign exchange risk

Structural foreign exchange risk is the exposure of the Group's consolidated capital ratios to changes in exchange rates and results from net investment in subsidiaries, associates and branches, the functional currencies being currencies other than euro. The Group is exposed to foreign exchange risk as it translates foreign currencies into euro at each reporting period and the currency profile of the Group's capital may not necessarily match that of its assets and risk weighted assets.

Exchange differences on structural exposures are recognised in 'other comprehensive income' in the financial statements. The ALCo monitors structural foreign exchange risk and the foreign exchange sensitivity of consolidated capital ratios. This impact is measured in terms of basis points sensitivities using scenario analysis. The amount of structural foreign exchange risk is not material to the Group.

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 CET 1 fully loaded capital to foreign exchange movements (unaudited)	**2018**	2017
+ 10% move in GBP and USD FX rates	**(0.21%)**	(0.18%)
– 10% move in GBP and USD FX rates	**0.20%**	0.17%

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.

3.6 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.
- There could be a negative impact on industrial relations if the funding level of the scheme was to deteriorate significantly.

Risk identification and assessment

The IAS 19 valuation of the pension scheme assets and liabilities may vary which could impact on the Group's capital. The Group works with the Trustees of each scheme to monitor the performance of investments and estimates of future liability to identify deficits. Given that variability in the value of the pension scheme assets and liabilities can impact on the Group's capital the key processes through which pension risk is evaluated are:
- the Internal Capital Adequacy Assessment Process ("ICAAP") as well as quarterly internal stress tests and
- monthly reporting of Pension risk against risk appetite. The pension capital at risk metric is measured and reported monthly against this watch trigger.

The Group maintains a number of defined benefit pension schemes for current and former employees. These defined benefit schemes were closed to future accrual by the 31 December 2013 with all staff transferring to a defined contribution scheme for future service on a standardized basis.

Each scheme has a separate trustee board and the Group has agreed funding plans to deal with deficits in each scheme. As part of each funding agreement, the Group engages with each trustee regarding an appropriate investment strategy to reduce the risk in each scheme.

Irish schemes that are deemed to have a deficit under the Minimum Funding Standard must prepare funding plans to address this situation in a timely manner and submit them to the Pensions Authority for approval.

Risk management and mitigation

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.

AIB has developed a strategy going forward for each of its defined benefit schemes which include the following steps;
1. All defined benefit schemes are closed to future accrual.
2. They have funding plans (or are funded as required for the US schemes) and each defined benefit scheme has an investment strategy in place.
3. All schemes have a strategy of de-risking in line with their regulatory requirements, funding positions and funding plans taking into account the nature of their liabilities.

*Forms an integral part of the audited financial statements

3.6 Financial risks* (b) Pension risk *(continued)*
During 2018, the Group made the final € 40 million payment to the AIB Group Irish Pension Scheme under the Minimum Funding Standard funding proposal agreed in 2013 with the Pensions Authority and Trustee of the Irish Scheme. The most recent actuarial valuation of the Irish Scheme was carried out at 30 June 2018 and reported the scheme to be in surplus and requiring no deficit funding at this time. It has been agreed with the Trustee of the UK Scheme to extend the deadline for completing the valuation at 31 December 2017 to 2019. The Group is currently considering funding options for the UK Scheme with the Trustee.

Risk monitoring and reporting
Pension risk is included in the quarterly internal stress test. The output of quarterly stress tests is reviewed by the Group's Asset and Liability Committee ("ALCo") and on an annual basis an ICAAP Report is produced which is a comprehensive analysis of the Group's capital position in base and stress scenarios over a three year horizon. This document is reviewed and approved by the Board and is submitted to the Joint Supervisory Team.

The pension Capital at risk exposure is reported against the watch trigger and is contained in the CRO report each month.
While the Group has taken certain risk mitigating actions, a level of volatility associated with pension funding remains due to potential financial market fluctuations and possible changes to pension and accounting regulations.

3.7 Operational risk
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes legal risk – the potential for loss arising from the uncertainty of legal proceedings and potential legal proceedings, but excludes strategic and reputational risk. In essence, operational risk is a broad canvas of individual risk types which includes information technology, cyber, change, continuity management, outsourcing and cloud, products, people and property protection and legal risks.

Operational risk operating model
AIB's operating model for operational risk is designed to ensure the framework is embedded and executed robustly across the Group. The key components of the operating model are:
- A strong operational risk function, appropriately staffed and clearly independent of the first line of defence; and
- Technology, policies and procedures in place to support effective assessment and mitigation of operational risks.

Risk identification and assessment
Risk and Control Assessment ("RCA") is a core process in the identification and assessment of operational risk across the Group. The process serves to ensure that key risks are proactively identified, evaluated, monitored and reported, and that appropriate action is taken. Self-assessment of risks is completed at business unit level and is recorded on SHIELD which is the Group's Governance, Risk and Compliance ("GRC") System. SHIELD provides the customer facing business areas, BCS, Finance, Risk, Compliance and Group Internal Audit with one consistent view of the Risks, Controls, Actions and Events across the Group. SHIELD underpins an enhanced risk culture focused on ensuring better customer outcomes while helping to safeguard, protect and support the Group. RCAs are regularly reviewed and updated by business unit management. A materiality matrix is in place to enable the scoring of risks, and action plans must be developed to provide mitigants for the more significant risks. Monitoring processes are in place at business unit and support level. The central Operational Risk Team sets and maintains policies and procedures for self-assessment and undertakes risk based reviews and testing to ensure the completeness and robustness of each business unit's self-assessment, and that appropriate attention is given to the more significant risks.

Risk management and mitigation
Each business area is primarily responsible for managing its own risks. The Operational Risk Framework includes policies specific to key operational risks (such as information security; continuity and resilience; and outsourcing) to ensure an effective and consistent approach to operational risk management across the Group.

An important element of the Group's operational risk management framework is the ongoing monitoring of risks, control deficiencies and weaknesses, including tracking of operational risk events. AIB also requires all business areas to undertake risk assessments and establish appropriate internal controls in order to ensure that all components, taken together, deliver the control objectives of key risk management processes. The role of operational risk is to review operational risk management activities across the Group including setting policy and promoting best practice disciplines, augmented by an independent second line assurance process.

In addition, an insurance programme is in place, including a self-insured retention, to cover a number of risk events which would fall under the operational risk umbrella. These include financial lines policies (comprehensive crime/computer crime; professional indemnity/civil liability; employment practices liability; directors and officers liability and a suite of general insurance policies to cover such things as property and business interruption, terrorism, combined liability, personal accident and cyber).

*Forms an integral part of the audited financial statements

3.7 Operational risk *(continued)*

Risk monitoring and reporting

The Head of Operational Risk reports to the Chief Risk Officer, and provides information to the Board through the Board Risk Committee, Executive Risk Committee and the Operational Risk Committee. The primary objective of operational risk reporting is to provide the Board with a timely and pertinent update on the Operational Risk profile, in order to assist the Board in discharging its responsibilities for the oversight of risk. A secondary objective is to provide senior management with an overview of the Operational Risk profile, in order to support the effective management of risks. The profile update details the current status of the Group's key Operational Risks and includes an overview of current trends and an update on recent significant events. The reporting of the Operational Risk profile, as required, at the Executive Risk and Board Risk Committees supports these two objectives. In addition, the Board Audit Committee and the Executive Risk Committee receive summary information on the Group's Operational Risk profile on a regular basis.

Business units are required to review and update their assessment of operational risks on a regular basis. Operational risk teams undertake review and challenge assessments of the business unit risk assessments. In addition, assurance teams which are independent of the business, undertake reviews of the operational controls as part of a combined regulatory/compliance/operational risk programme.

3.8 Regulatory compliance risk including conduct risk

Regulatory compliance risk is defined as the risk of regulatory sanctions, material financial loss or loss to reputation which the Group may suffer as a result of failure to comply with all applicable laws, regulations, rules, standards and codes of conduct applicable to its activities.

Regulatory Compliance is an enterprise-wide function which operates independently of the business. The function is responsible for identifying compliance obligations arising in each of the Group's operating markets. Regulatory Compliance work closely with management in assessing compliance risks and provide advice and guidance on addressing these risks. Risk-based monitoring of compliance by the business with regulatory obligations is undertaken.

Conduct Risk is defined as the risk that inappropriate actions, or inaction, by the Group cause poor and unfair outcomes for its customers or market instability. A Conduct Risk Framework, aligned with the Group Strategy, is embedded in the organisation and provides oversight of conduct risks at Leadership Team/Executive Committee and Board level. This includes the embedding of a customer first culture aligned to AIB's Brand Values and Code of Conduct and the promotion of good conduct throughout the organisation.

The Group's regulators have defined consumer protection principles in conduct of business regulations. These principles are embedded in the Group's Conduct Risk management and policies and procedures.

Conduct risk is managed in line with the processes, procedures and organisational structures for the management of Regulatory Compliance risk.

Risk identification and assessment

The Regulatory Compliance function is specifically responsible for independently identifying and assessing current and forward looking compliance obligations, as well as Financial Crime regulation and regulation on privacy and data protection. The identification, interpretation and communication roles relating to other legal and regulatory obligations have been assigned to functions with specialist knowledge in those areas. For example, employment law is assigned to Human Resources and taxation law to Group Taxation. Regulatory Compliance undertakes a periodic detailed assessment of the key compliance risks and associated mitigants. The Regulatory Compliance function operates a risk framework approach that is used in collaboration with business units to identify, assess and manage key compliance risks at business unit level. These risks are incorporated into the RCAs for the relevant business unit.

Risk management and mitigation

The Board, operating through the Board Risk Committee, approves the Group's compliance policy and its mandate for the Regulatory Compliance function.

The Board is responsible for ensuring that the Group complies with its regulatory responsibilities. The Board's responsibilities in respect of compliance include the establishment and maintenance of the framework for internal controls and the control environment in which compliance policy operates. The Board ensure that Regulatory Compliance is suitably independent from business activities and that it is adequately resourced.

The primary role of the Regulatory Compliance function is to provide direction and advice to enable management to discharge its responsibility for managing the Group's compliance risks. The principal compliance risk mitigants are risk identification, assessment, measurement and the establishment of suitable controls at business level. In addition, the Group has insurance policies that cover certain consequences of risk events which fall under the regulatory compliance umbrella, subject to policy terms and conditions.

3.8 Regulatory compliance risk including conduct risk *(continued)*

Risk monitoring and reporting

Regulatory Compliance undertakes risk-based monitoring of compliance with relevant policies, procedures and regulatory obligations. Monitoring can be undertaken by either dedicated independent assurance teams, or in collaboration with other control functions such as Group Internal Audit and/or Operational Risk.

Risk prioritised annual assurance plans are prepared with assurance reviews undertaken on both a business unit and a process basis. The annual assurance plan is reviewed regularly, and updated to reflect changes in the risk profile from emerging risks, changes in risk assessments and new regulatory 'hotspots'. Issues emerging from assurance activity are escalated for management attention, and action plans and implementation dates are agreed. The implementation of these action plans is monitored by Regulatory Compliance.

Regulatory Compliance report to the Chief Risk Officer and independently to the Board, through the Board Risk Committee, on the effectiveness of the processes established to ensure compliance with laws and regulations within its scope.

3.9 People and culture risk

People and culture are essential components in realising an organisation's strategic ambitions. An effective culture is built around a general principle of people "doing the right thing" for all stakeholders, including customers, employees and regulators.

People and culture risk is the risk to achieving the Group's strategic objectives as a result of an inability to recruit, retain or develop resources, or as a result of behaviours associated with low levels of employee engagement. It also includes the risk that the business, financial condition and prospects of the Group are materially adversely affected as a result of inadvertent or intentional behaviours or actions taken or not taken by employees that are contrary to the overall strategy, culture and values of the Group. A People and Culture Risk Framework was introduced in 2018.

Risk identification and assessment

The Group identifies and reviews employee satisfaction and engagement, indicators of culture, through the AIB staff engagement programme, iConnect, which is facilitated by Gallup on an annual basis. The survey includes measures on our cultural ambitions of Accountability, Collaboration, Trust, Diversity and Inclusion and Safe to Speak. Initiatives are undertaken at team level to continuously identify opportunities for further employee engagement. Engagement scores have continued to improve on an annual basis since the staff engagement programme inception in 2013.

The Group's performance is heavily dependent on the talents and efforts of highly skilled individuals, and the continued ability of the Group to compete effectively and implement its strategy depends on its ability to attract new employees and retain and motivate existing employees. Competition from within the financial services industry, including from other financial institutions, as well as from businesses outside the financial services industry for key employees is intensifying. In particular, under the terms of the recapitalisation of the Group by the Government, the Group is required to comply with certain executive pay and compensation arrangements, including a cap on salaries as well as a ban on bonuses and similar incentive-based compensation applicable to employees of Irish banks who have received financial support from the Government.

The Group uses the Aspire Performance Management Programme ("Aspire") to facilitate quality performance discussions with staff that contribute to delivering the Group's strategic ambitions. Aspire is designed to allow employees identify "What" personal and business objectives are to be achieved and "How" they will behave in the delivery of those objectives. The Board assesses the Aspire outputs on a half-year and year-end basis. Aspire allows the Group embrace the right behaviours and outcomes with equal weighting, to achieve the Group's strategic ambition.

Risk management and mitigation

In 2017 the Group launched its 'Purpose', which is supported and embedded by a clear set of 'customer first' values. These values drive and influence activities of all employees, guiding the Group's dealings with customers, each other and all stakeholders.

The Group's Code of Conduct, incorporating the Risk Culture Principles, places great emphasis on the integrity of employees and accountability for both actions taken and inaction. The Code sets out how employees are expected to behave in terms of the business, customer and employee. The Code is supported by a range of employee policies, including 'Conflicts of Interest' and 'Speak up'.
The Group has a Disciplinary Policy which clearly lays out the consequences of inappropriate behaviours.

The Group's 'Speak Up' Policy and process also provides those working for the Group with a protected channel for raising concerns, which is at the heart of fostering an open and transparent working culture.

The Group's iLearn training portal, provides employees with dedicated and bespoke curricula that allow teams and individuals to invest in themselves and, therefore, the organisation.

3.9 People and culture risk *(continued)*

Risk monitoring and reporting

The Group has made significant steps in increasing engagement and awareness of the Group's Risk management activities by embedding the Risk Appetite Statement in Policies and Frameworks of the Group. The Risk Appetite Statement contains clear statements of intent as to the Group's appetite for taking and managing risk, including people and culture risk. It ensures that the Group monitors and reports against key people and culture metrics when tracking people and culture risk and change.

Internal Audit include people and culture risk on their annual plan of activities, the outputs of which are reviewed by the Board.

The Group, through the Board Audit Committee, reports and monitors issues raised through a number of channels including Conflicts of Interest, Disciplinary Policy and Speak Up Policy. The Board monitors and reviews progress and oversight of senior management in relation to our people and culture ambitions through a number of datasets including iConnect, the Strategy Scorecard and a Culture Dashboard.

3.10 Business model risk

Business model risk is defined as the risk of not achieving the Group's strategy or approved business plan either as a result of an inadequate implementation plan, or failure to execute the implementation plan as a result of inability to secure the required investment, or due to factors in the economic, political or competitive environment. Business model risk also includes the risk of implementing an unsuitable strategy, or maintaining an obsolete business model, in light of known internal and external factors.

Risk identification and assessment

AIB identifies and assesses business model risk as part of its integrated planning process, which encapsulates strategic, business and financial planning. This process drives delivery of AIB's 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.

The Group reviews underlying assumptions on its external operating environment and, by extension, its strategic objectives on a periodic basis, the frequency of which is determined by a number of factors including the speed of change of the economic environment, changes in the financial services industry and the competitive landscape, regulatory change and deviations in actual business outturn from strategic targets. In normal circumstances, this is annually.

The Group's business and financial planning process supports the Group's strategy. Every year, the Group prepares three-year business plans at a Group level based on macroeconomic and market forecasts across a range of scenarios. The plan includes an evaluation of planned performance against a suite of key metrics, supported by detailed analysis and commentary on underlying trends and drivers, across income statement, balance sheet and business targets. This assessment includes, but is not limited to discussion on new lending volumes and pricing, deposits volumes and pricing, other income, cost management initiatives and credit performance. The Group plan is supported by detailed business unit plans. Each business unit plan is aligned to the Group strategy and risk appetite. The business plan typically describes the market in which the segment operates, market and competitor dynamics, business strategy, financial assumptions underpinning the strategy, actions/investment required to achieve financial outcomes and any risks/opportunities to the strategy.

Risk management and mitigation

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 Leadership Team/Executive Committee performance scorecards.

Risk monitoring and reporting

Performance against plan is monitored at segment level on a monthly basis and reported to senior management teams within the business. At an overall Group level, performance against plan is monitored as part of the CFO Report which is discussed at Leadership Team/Executive Committee and Board on a monthly basis. Risk profile against risk appetite measures, some of which reference performance against plan, is monitored by the CRO and reported on a monthly basis to the Executive Risk Committee and Board.

Risk management – 3. Individual risk types

3.11 Model risk

Model Risk is defined as 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. Model risk is comprised of two elements, firstly, - the risk of losses relating to the development, implementation or improper use of models for decision making (e.g. product pricing, evaluation of financial instruments, monitoring of risk limits) and secondly, capital impact which is the risk relating to the underestimation of own funds requirements by models used within the Group for those purposes.

Risk identification and assessment

The Board has ultimate accountability for ensuring that models used by AIB are fit for purpose, meet all jurisdictional regulatory and accounting standards, and ensuring that there is clarity on the model risk strategy and framework. It is responsible for the appointment of organisational structures to implement and manage the model risk framework and for ensuring that there are appropriate policies in place relating to capital assessment, measurement and allocation.

Operating to the principles outlined in the Model Risk Framework (the Framework) supports the Group's strategic objectives and provides comfort to the AIB Board on the integrity and completeness of the model risk governance.

Risk management and mitigation

The Group mitigates model risk by having a framework, policies and standards in place in relation to model development, operation, and validation together with suitable resources. The Group Model Risk Management Framework is designed to ensure that model risk in the Group is properly identified and managed across each step of the model lifecycle within an appropriate control framework.
The Framework, which is aligned to the Group Risk Appetite Framework and the Group Risk Management Framework, describes the key processes undertaken and reports produced in support of the Framework.

Models are built and validated by suitably qualified analytical personnel, informed by relevant business and finance functions.
Models are built using the best available data, both internal and external, using international industry standard techniques.

All models are validated by an appropriately qualified team, which is independent of the model build process.

Group Internal Audit act as the "third line of defence" providing independent assurance to the Board Audit Committee and the Board on the adequacy, effectiveness and sustainability of the governance, risk management and control framework supporting model risk through their periodic review of the Model Risk Management processes.

Risk monitoring and reporting

The Model Risk Committee acts as a sub-committee of the Group Asset and Liability Committee ("ALCo") and reviews and approves the use, or recommends to a higher governance authority, the use of the Group's credit, operational and financial risk models. It also monitors and maintains oversight of the performance of these models.

As a material risk, the status of model risk is reported on a monthly basis in the CRO report.

Governance and oversight

The Directors of AIB Group plc ('the Company') present their report and the audited financial statements for the financial year ended 31 December 2018. The Directors' Responsibility Statement is shown on page 216.

For the purpose of this report 'AIB Group' or 'the Group' comprises the Company and its subsidiaries in the financial year ended 31 December 2018.

Results
The Group's profit attributable to the ordinary shareholders of the Company amounted to € 1,092 million and was arrived at as shown in the consolidated income statement on page 227.

Dividend
The Board is recommending a dividend of € 0.17 per share payable on 3 May 2019 to shareholders on the Company's Register of Members at the close of business on 22 March 2019.

During 2018, the Company paid a final dividend of € 0.12 per share on 8 May 2018 to its ordinary shareholders who were on the Register of Members at the close of business on 23 March 2018.

Going concern
The financial statements for the financial year ended 31 December 2018 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 2019 to 2021 approved by the Board in December 2018, 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 62 to 68 in the 'Risk management' section of this report.

Directors Compliance Statement
As required by section 225(2) of the Companies Act 2014, the Directors acknowledge that they are responsible for securing the Company's compliance with its relevant obligations (as defined in section 225(1)). The Directors confirm that:
(a) a compliance policy statement (as defined in section 225(3)(a)) has been drawn up that sets out the Company's policies and, in the Directors' opinion, is appropriate to ensure compliance with the company's relevant obligations;
(b) appropriate arrangements or structures that are, in the Directors' opinion, designed to secure material compliance with the relevant obligations have been put in place; and
(c) a review of those arrangements or structures has been conducted in the financial year to which this report relates.

Capital
Information on the structure of the Company's share capital, including the rights and obligations attaching to each class of shares, is set out in the Schedule on pages 171 to 173 and is part of note 42 to the consolidated financial statements.

Accounting policies
The principal accounting policies, together with the basis on which the financial statements have been prepared, are set out in note 1 to the consolidated financial statements.

Review of principal activities
The statement by the Chairman on pages 4 to 5 the review by the Chief Executive Officer on pages 6 to 9, and the operating and financial review on pages 39 to 56 contain an overview of the development of the business of the Group during the year, of recent events, and of likely future developments.

Directors
At 31 December 2018, the Board of Directors of the Company was comprised of Richard Pym, Simon Ball, Mark Bourke, Bernard Byrne, Thomas (Tom) Foley, Peter Hagan, Carolan Lennon, Brendan McDonagh, Helen Normoyle, James (Jim) O'Hara and Catherine Woods.

Mark Bourke is resigning as CFO and Executive Director with effect from 1 March 2019.

Bernard Byrne has informed the Board of his intention to resign as CEO and Executive Director of the Company.

On 14 December 2018, Colin Hunt was announced as the Board's proposed successor to the role of CEO and Executive Director subject to the regulatory assessment process. The regulatory assessment processes relating to Dr Hunt's proposed appointments and a successor to the CFO role respectively are progressing well and are expected to finalise shortly.

Simon Ball has notified the Company of his intention not to stand for re-election at this year's Annual General Meeting.

The names of the Directors, together with a short biographical note on each Director, is provided on pages 34 and 35.

The appointment and replacement of Directors, and their powers, are governed by law and the Constitution of the Company, and information on these is set out on pages 172 and 173.

Directors' and Secretary's Interests in the share capital
The interests of the Directors and the Group Company Secretary in the share capital of the Company are shown in the Corporate Governance Remuneration statement on page 210.

Directors' Remuneration
The Group's policy with respect to Directors' remuneration is included in the Corporate Governance Remuneration statement on pages 205 to 207. Details of the total remuneration of the Directors in office during 2018 and 2017 are shown in the Corporate Governance Remuneration statement on pages 208 to 210.

Non-Financial Statement

New regulations on non-financial information, which were transposed into Irish law by the European Union (disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017, require that we report on specific topics such as environmental matters; social and employee matters; respect for human rights; and bribery and corruption ('key non-financial matters'). The Group is committed to maintaining sustainable and ethically responsible corporate and social practices in every aspect of its business. The table included on page 24 of the Annual Financial Report, together with the information it refers to, is intended to assist shareholders to understand our position on key non-financial matters.
A description of our business model is included on pages 12 and 13 of the Annual Financial Report and the table on page 19 summarises the linkage between the Group's strategic pillars, the principal risks and uncertainties and the Group's material risks. The material risks primarily impacted by key non-financial matters include conduct risk and people and culture risk. Further details of the Group's risk management governance and organisational framework can be found on pages 69 to 72.

Substantial interests in the share capital

As at 31 December 2018, the Company had been notified that the Minister for Finance of Ireland holds 1,930,436,543 ordinary shares representing 71.12% of the total voting rights attached to the issued share capital.

On 7 January 2019, International Value Advisers, LLC notified the Company that as of 2 January 2019, they had acquired an interest in 81,484,743 ordinary shares representing 3.002% of the total voting rights attached to the issued share capital.

On 20 February 2019, International Value Advisers, LLC notified the Company that as of 20 February 2019, following a disposal of voting rights, they held an interest in 81,210,952 ordinary shares representing 2.992% of the total voting rights attached to the issued share capital.

There were no other interests disclosed to the Company in accordance with the Market Abuse Regulation and Part 5 of the Transparency Regulations and the related transparency rules during the period from 31 December 2018 to 22 February 2019.

Corporate Governance

The Directors' Corporate Governance report is set out on pages 174 to 185 and forms part of this report. Additional information, disclosed in accordance with the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006, is included in the Schedule to the Report of the Directors on pages 171 to 173.

In accordance with Section 167 of the Companies Act 2014, the Directors confirm that a Board Audit Committee is established. Details on the Board Audit Committee's membership and activities are shown on pages 186 to 191.

Political donations

The Directors 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 'Governance and oversight' on pages 212 and 213, and the employment of competent persons. The accounting records are kept at the Company's Registered Office at AIB Bankcentre, Ballsbridge, Dublin 4, Ireland, and at the principal addresses outlined on page 379.

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 in the Risk Management section on pages 62 to 68.

Branches outside the State

The Company has not established any branches since incorporation. However, the Company's principal operating subsidiary, Allied Irish Banks, p.l.c., established branches, within the meaning of EU Council Directive 89/666/EEC (implemented in Ireland by the European Communities (Branch Disclosures) Regulations 1993), in the United Kingdom and the United States of America. The branch of Allied Irish Banks, p.l.c., previously established in the Grand Cayman Islands was closed on 2 January 2019.

Auditors

The Auditors, Deloitte, were appointed to the Group on 20 June 2013 following shareholder approval at the 2013 Annual General Meeting on that date. Furthermore, Deloitte were re-appointed as auditors of the Company at the last Annual General Meeting held on 25 April 2018 and shall hold office until the conclusion of the next Annual General Meeting of the Company pursuant to section 382 of the Companies Act 2014 at which time their continued appointment will be proposed to the shareholders for approval. Deloitte have indicated a willingness to continue in office in accordance with section 383(2) of the Companies Act 2014.

Statement of relevant audit information

Each of the persons who is a Director at the date of approval of this report confirms that:

(a) so far as the Director is aware, there is no relevant audit information of which the company's auditor is unaware; and
(b) the Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

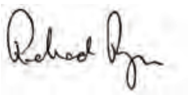
This confirmation is given and should be interpreted in accordance with the provisions of section 330 of the Companies Act 2014.

Governance and oversight – Group Directors' report *for the financial year ended 31 December 2018*

Other information

Other information relevant to the Group Directors' report may be found in the following pages of the report:

The Group Directors' Report for the year ended 31 December 2018 comprises these pages and the sections of the report referred to under 'Other information' above, which are incorporated into the Group Directors' report by reference.



Richard Pym
Chairman

Bernard Byrne
Chief Executive Officer

28 February 2019

Governance and oversight – Schedule to the Group Directors' report

for the financial year ended 31 December 2018

Additional information required to be contained in the Directors' Annual Report by the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006.

As required by these Regulations, the information contained below represents the position of the Company as of 31 December 2018.

Capital Structure

The authorised share capital of the Company is € 2,500,025,000 divided into 4,000,000,000 ordinary shares of € 0.625 each ('Ordinary Shares') and 40,000 Subscriber Shares of € 0.625 each. The issued share capital of the Company is 2,714,381,237 Ordinary Shares of € 0.625 each.

Rights and obligations of each class of share

The following rights attach to Ordinary Shares:

– the right to receive duly declared dividends, in cash or, where offered by the Directors, by allotment of additional Ordinary Shares;
– the right to attend and speak, in person or by proxy, at general meetings of the Company;
– the right to vote, in person or by proxy, at general meetings of the Company having, in a vote taken by show of hands, one vote, and, on a poll, a vote for each Ordinary Share held;
– the right to appoint a proxy, in the required form, to attend and/or vote at general meetings of the Company;
– the right to receive, (by post or electronically), at least 21 days before the Annual General Meeting, a copy of the Directors' and Auditor's reports accompanied by copies of the balance sheet, profit and loss account and other documents required by the Companies Act to be annexed to the balance sheet or such summary financial statements as may be permitted by the Companies Act;
– the right to receive notice of general meetings of the Company; and
– in a winding-up of the Company, and subject to payments of amounts due to creditors and to holders of shares ranking in priority to the Ordinary Shares, repayment of the capital paid up on the Ordinary Shares and a proportionate part of any surplus from the realisation of the assets of the Company.

There is attached to the Ordinary Shares an obligation for the holder, when served with a notice from the Directors requiring the holder to do so, to inform the Company in writing within not more than 14 days after service of such notice, of the capacity in which the shareholder holds any share of the Company and, if such shareholder holds any share other than as beneficial owner, to furnish in writing, so far as it is within the shareholder's knowledge, the name and address of the person on whose behalf the shareholder holds such share or, if the name or address of such person is not forthcoming, such particulars as will enable or assist in the identification of such person, and the nature of the interest of such person in such share. Where the shareholder served with such notice (or any person named or identified by a shareholder on foot of such notice), fails to furnish the Company with the information required within the time period specified, the shareholder shall not be entitled to attend meetings of the Company, nor to exercise the voting rights attached to such share, and, if the shareholder holds 0.25% or more of the issued Ordinary Shares, the Directors will be entitled to withhold payment of any dividend payable on such shares, and the shareholder will not be entitled to transfer such shares except by sale through a Stock Exchange to a bona fide unconnected third party. Such sanctions will cease to apply after not more than seven days from the earlier of receipt by the Company of notice that the member has sold the shares to an unconnected third party or due compliance, to the satisfaction of the Company, with the notice served as provided for above.

The following rights attach to Subscriber Shares:

– on a return of assets on a winding up of the Company, the holders of the Subscriber Shares shall be entitled, in priority to the holders of Ordinary Shares, to repayment of the aggregate nominal value of the Subscriber Shares held by them. The Subscriber Shares shall not be entitled to any further payment on a return of assets on a winding up of the Company.

Subscriber Shares may, at any time, be redeemed at par by the Company and cancelled. Neither the redemption nor the cancellation of the Subscriber Shares by the Company shall constitute a variation or abrogation of the rights or privileges attached to the Subscriber Shares, and accordingly the Subscriber Shares or any of them may be so redeemed and cancelled without any consent or sanction on the part of the holders thereof.

Restrictions on the transfer of shares

Save as set out below, there are no limitations in Irish law or in the Company's Constitution on the holding of Ordinary Shares, and there is no requirement to obtain the approval of the Company, or of other holders of Ordinary Shares, for a transfer of Ordinary Shares.

The Ordinary Shares are, in general, freely transferable, but the Directors may decline to register a transfer of Ordinary Shares upon notice to the transferee, within two months after the lodgement of a transfer with the Company, in the following cases: (i) a lien held by the Company on the shares;
(ii) a purported transfer to an infant or a person lawfully declared to be incapable for the time being of dealing with their affairs; or
(iii) a single transfer of shares which is in favour of more than four persons jointly.

Ordinary Shares held in certificated form are transferable upon production to the Company's Registrars of the Original Share certificate and the usual form of stock transfer duly executed by the holder of the shares.

Shares held in uncertificated form are transferable in accordance with the rules or conditions imposed by the operator of the relevant system that enables title to the Ordinary Shares to be evidenced and transferred without a written instrument, and in accordance with the Companies Act 2014.

The rights attaching to Ordinary Shares remain with the transferor until the name of the transferee has been entered on the Register of Members of the Company

Exercise of rights of shares in employee share schemes

The AIB Approved Employee Profit Sharing Scheme 1998 and the Allied Irish Banks, p.l.c. Share Ownership Plan (UK) provide that voting rights in respect of shares held in trust for employees who are participants in those schemes are, on a poll, to be exercised only in accordance with any directions in writing by the employees concerned to the Trustees of the relevant scheme. Following the establishment of the Company, the shares previously held in trust in Allied Irish Banks, p.l.c. were exchanged, on a one-for-one basis, for new shares in the Company.

Deadlines for exercising voting rights

Voting rights at general meetings of the Company are exercised when the Chairman puts the resolution at issue to a vote of the meeting. A vote decided by a show of hands is taken forthwith. A vote taken on a poll for the election of the Chairman or on a question of adjournment is also taken forthwith, and a poll on any other question is taken either immediately or at such time (not being more than 30 days from the date of the meeting at which the poll was demanded or directed) as the Chairman of the meeting directs. Where a person is appointed to vote for a shareholder as proxy, the instrument of appointment must be received by the Company not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the appointed proxy proposes to vote, or, in the case of a poll, not less than 48 hours before the time appointed for taking the poll.

Rules concerning amendment of the Company's Constitution

As provided in the Companies Act 2014, the Company may, by special resolution, alter or add to its Constitution. A resolution is a special resolution when it has been passed by not less than three-fourths of the votes cast by shareholders entitled to vote and voting in person or by proxy, at a general meeting at which not less than 21 clear days' notice specifying the intention to propose the resolution as a special resolution, has been duly given. A resolution may also be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given if it is so agreed by a majority in number of the members having the right to attend and vote at any such meeting, being a majority together holding not less than 90% in nominal value of the shares giving that right.

Rules concerning the appointment and replacement of Directors of the Company

- Other than in the case of a casual vacancy, Directors are appointed on a resolution of the shareholders at a general meeting, usually the Annual General Meeting.
- No person, other than a Director retiring at a general meeting is eligible for appointment as a Director without a recommendation by the Directors for that person's appointment unless, not less than 42 days before the date of the general meeting, written notice by a shareholder duly qualified to be present and vote at the meeting of the intention to propose the person for appointment, and notice in writing signed by the person to be proposed of willingness to act, if so appointed, have been given to the Company.
- A shareholder may not propose himself or herself for appointment as a Director.
- The Directors have the power to fill a casual vacancy or to appoint an additional Director (within the maximum number of Directors fixed by the Company in a general meeting), and any Director so appointed holds office only until the conclusion of the next Annual General Meeting following his or her appointment, when the Director concerned shall retire, but shall be eligible for reappointment at that meeting.
- One-third of the Directors for the time being (or if their number is not three or a multiple of three, not less than one-third) are obliged to retire from office at each Annual General Meeting on the basis of the Directors who have been longest in office since their last appointment. While not obliged to do so, the Directors have, in recent years, adopted the practice of all (those wishing to continue in office) offering themselves for re-election at the Annual General Meeting.
- A person is disqualified from being a Director, and their office as a Director ipso facto vacated, in any of the following circumstances:
  - if at any time the person has been adjudged bankrupt or has made any arrangement or composition with his or her creditors generally;
  - if found to no longer have adequate decision making capacity in accordance with law;
  - if the person be prohibited or restricted by law from being a Director;
  - if, without prior leave of the Directors, he or she be absent from meetings of the Directors for six successive months (without an alternate attending) and the Directors resolve that his or her office be vacated on that account;
  - if, unless the Directors or a court otherwise determine, he or she be convicted of an indictable offence;
  - if he or she be requested, by resolution of the Directors, to resign his or her office as Director on foot of a unanimous resolution (excluding the vote of the Director concerned) passed at a specially convened meeting at which every Director is present (or represented by an alternate) and of which not less than seven days' written notice of the intention to move the resolution and specifying the grounds therefor has been given to the Director; or
  - if he or she has reached an age specified by the Directors as being that at which that person may not be appointed a Director or, being already a Director, is required to relinquish office and a Director who reaches

the specified age continues in office until the last day of the year in which he or she reaches that age.

- In addition, the office of Director is vacated, subject to any right of appointment or reappointment under the Company's Constitution, if:
  - not being a Director holding for a fixed term an executive office in his or her capacity as a Director, he or she resigns their office by a written notice given to the Company, upon the expiry of such notice; or
  - being the holder of an executive office other than for a fixed term, the Director ceases to hold such executive office on retirement or otherwise;
  - the Director tenders his or her resignation to the Directors and the Directors resolve to accept it; or
  - the Director ceases to be a Director pursuant to any provision of the Company's Constitution.
- Notwithstanding anything in the Company's Constitution or in any agreement between the Company and a Director, the Company may, by Ordinary Resolution of which extended notice has been given in accordance with the Companies Act 2014, remove any Director before the expiry of his or her period of office.
- The Minister for Finance has the power to nominate two Non-Executive Directors in accordance with the Relationship Framework between the Group and the State and certain provisions as outlined therein. The Relationship Framework is available on the Group's website at: https://aib.ie/investorrelations.

The powers of the Directors

Under the Company's Constitution, the business of the Company is to be managed by the Directors, who may exercise all the powers of the Company subject to the provisions of the Companies Act, the Constitution of the Company, and to any directions given by special resolution of a general meeting. The Company's Constitution further provides that the Directors may make such arrangement as may be thought fit for the management, organisation and administration of the Company's affairs, including the appointment of such executive and administrative officers, managers and other agents as they consider appropriate, and may delegate to such persons (with such powers of sub-delegation as the Directors shall deem fit) such functions, powers and duties as the Directors may deem requisite or expedient.

Governance and oversight – Corporate Governance report

Chairman's introduction

Dear Shareholder,

I am pleased to present our Corporate Governance Report for 2018. This report explains how corporate governance standards are applied across the Group. It should be read in conjunction with Governance in AIB, pages 26 to 29 and Governance in Action, pages 30 to 32.

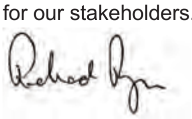
I would like to thank each member of the Board for their continued commitment and support during 2018. On behalf of the Non-Executive Directors, I wish to extend our sincere appreciation to Mr Bernard Byrne and Mr Mark Bourke for their effective leadership and significant contribution to AIB Group as Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") respectively. I wish them well as they depart AIB Group in early 2019 and in all future endeavours.

Looking ahead, 2019 will be another pivotal year for AIB Group and I look forward to working with our new CEO designate and Executive Director, Dr Colin Hunt, subject to regulatory assessment. As at the date of this Corporate Governance report, the regulatory assessment processes relating to Colin's appointment and a successor to the CFO role are progressing well and are expected to finalise shortly.

The composition of the Board changes greatly in 2019, as, in addition to the Executive Director changes, we see the departure of a number of our long standing Non-Executive Directors. While they will be missed, each having made a significant contribution to the evolution of the Group during some very turbulent times since the financial crisis, I look forward to a new diverse selection of Non-Executive Directors joining the Board.

We will continue to work together to ensure a sharper focus on the Group's culture to ensure that, increasingly, a commitment to high standards and customer values are at the heart of all of our decisions and that the Group is living and fulfilling its Purpose of backing our customers to achieve their dreams and ambitions. This shared sense of purpose guides the overall ambition and strategy of the Group and seeks to unite all staff behind a common goal.

As a Board, we remain committed to the principles of strong corporate governance and to creating sustainable long-term value for our stakeholders.



Richard Pym
Chairman

Corporate Governance arrangements and practices

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

The Framework takes account of the many statutory and regulatory obligations that apply to the Group, including various corporate governance codes, regulations and best practice standards and guidelines, Irish company law, the Listing Rules of the Main Securities Market of the Euronext Dublin Stock Exchange and the London Stock Exchange, and, in relation to the UK businesses, UK company law. Further detail on the Group's governance practices is available on http://aib.ie/investorrelations.

The Group's governance arrangements include:
– a Board of Directors of sufficient size and expertise, the majority of whom are independent Non-Executive Directors, to oversee the operations of the Group, led by a Chairman who has the relevant qualifications, expertise and background to effectively conduct that role;
– a Chief Executive Officer to whom the Board has delegated responsibility for the day-to-day running of the Group, ensuring an effective organisation structure, the selection and direction of senior executive management, and for the operational management, compliance and performance of all the Group's businesses;
– a clear organisational structure with well defined, transparent and consistent lines of responsibility;
– a framework and policy architecture which comprises a comprehensive and coherent suite of frameworks, policies, procedures and standards covering business and financial planning, corporate governance and risk management;
– effective structures and processes to identify, manage, monitor and report the risks to which the Group is, or might be exposed, including a three lines of defence risk governance model;
– a strong and functionally independent internal audit function; and
– adequate internal control mechanisms, including sound administrative and accounting procedures, IT systems and controls, people policies and practices, including remuneration, that are consistent with and promote sound and effective risk management.

Statements of Compliance

UK Corporate Governance Code 2016 and Irish Corporate Governance Annex

The Group is subject to the provisions of the UK Corporate Governance Code 2016 (the '2016 UK Code' which is publicly available on www.frc.org.uk). During 2018, the Group applied the main principles and complied with all provisions of the 2016 UK

Code other than in instances related to Section D: Remuneration, in particular the principles and provisions under Section D.1: The Level and Components of Remuneration. Such non-compliance is due to agreements in place with the Irish State that restrict the Remuneration Committee and the Board's ability to set remuneration for Executive Directors and to design Executive Directors' remuneration packages to promote the long-term success of the Group. The Group continues to apply the 2016 UK Code and during 2018 we began to consider any areas requiring enhancement following the application of the newly introduced UK Corporate Governance Code 2018 which has been effective from 1 January 2019.

Additional obligations apply to the Group under the Irish Corporate Governance Annex (publicly available on www.ise.ie), which applies to relevant Irish companies with a primary listing on the Main Securities Market of the Euronext Dublin Stock Exchange. The Group is fully compliant with the Irish Corporate Governance Annex.

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

As a financial holding company, AIB Group plc is not directly required to comply with the Central Bank of Ireland's Corporate Governance Requirements for Credit Institutions 2015 (the "2015 Requirements" which is publicly available on www.centralbank.ie).

Allied Irish Banks, p.l.c., the principal subsidiary of AIB Group plc, is a credit institution and is subject to the 2015 Requirements, including compliance with requirements specifically relating to 'high impact institutions' and additional corporate governance obligations on credit institutions deemed significant for the purposes of the European Union (Capital Requirements) Regulations 2014 ("CRD") (S.I. 158/2014 which is publicly available on www.irishstatutebook.ie).

As outlined previously, the governance structures of AIB Group plc and Allied Irish Banks, p.l.c. are mirrored. As such, the 2015 Requirements and the applicable corporate governance aspects of CRD are applied across both entities. During 2018, AIB Group was materially compliant with the 2015 Requirements and applicable corporate governance aspects of CRD.

This Report, in conjunction with the Directors' Responsibilities Statement, Corporate Governance Remuneration Statement, Risk Governance section of the Risk Management Framework report and the Statement on Internal Control sets out our approach to governance in practice, the work of the Board and its Committees, and explains how the Group applied the principles of the 2016 UK Code during 2018.

For ease of reference, an index to disclosures relevant to the various Principles of the 2016 UK Code can be found on page 33.

Demonstrating Leadership through Corporate Governance

The Group is headed by an effective Board which is collectively responsible for the long-term success of the Group and is supported by the Executive Committee, being the most senior executive committee of the Group.

The Group ensures a clear division of responsibilities, including between the Chairman, who is responsible for the overall leadership of the Board and for ensuring its effectiveness, and the CEO, who manages and leads the business. No one individual has unfettered powers of decision. Key roles and responsibilities and a formal schedule of matters specifically reserved for Board decision are clearly defined, documented and communicated to key stakeholders.

The Board

Throughout 2018, the Board comprised the Chairman (Mr Richard Pym, who was independent on appointment), eight Independent Non-Executive Directors (Mr Simon Ball, Mr Tom Foley, Mr Peter Hagan, Ms Carolan Lennon, Mr Brendan McDonagh, Ms Helen Normoyle, Mr Jim O'Hara and Ms Catherine Woods) and two Executive Directors (Mr Mark Bourke and Mr Bernard Byrne).

The Board deems the appropriate number of directors to meet the requirements of the business to be between 10 and 14 but acknowledges that this number may go beyond 14 in the short term to accommodate succession planning activities and to ensure the timely induction and development of new directors. The names of the Directors, with brief biographical notes, are shown on pages 34 to 35.

Notice of the resignations in early 2019 of each of Mr Bernard Byrne, Chief Executive Officer, and Mr Mark Bourke, Chief Financial Officer, were announced in October and September 2018 respectively. In December 2018, Dr Colin Hunt was announced as the Board's proposed successor to the role of CEO and Executive Director subject to regulatory assessment. The regulatory assessment processes relating to Dr Hunt's proposed appointments and a successor to the CFO role respectively are progressing well and are expected to finalise shortly. Following the departure of Mark Bourke with effect from 1 March 2019, and pending conclusion of the aforementioned assessment process, the Deputy CFO and Group Treasurer Mr Donal Galvin will lead the Finance function.

The Board is responsible for corporate governance, encompassing leadership, direction and control of the Group and is accountable to shareholders for financial performance. The Board is also responsible for approving high-level policy and strategic direction in relation to the nature and scale of risk that the Group is prepared to assume in order to achieve its strategic objectives, and maintaining an appropriate system of internal controls. The Board receives regular updates on the Group's risk profile through the Chief Risk Officer's monthly report, and relevant updates from the Chairman of the Board Risk Committee. An overview of the Board Risk Committee's activities is detailed on pages 192 to 195.

Governance and oversight – Corporate Governance report

While arrangements have been made by the Directors for delegation of the management, organisation and administration of the Group’s affairs, the following matters are included in a schedule of matters specifically reserved for decision by the Board:

– to retain primary responsibility for corporate governance within the Group at all times and oversee the efficacy of governance arrangements;
– to set and monitor the culture of the Group to ensure an effective culture, where commitment to high standards and customer values are at the heart of decision-making;
– to approve and oversee the Group's strategic and financial plans, including operating and capital budgets, and to ensure that the necessary financial and human resources and an appropriate internal control framework are in place for the Group to meet its objectives and support a sustainable business model;
– to approve and oversee major acquisitions and disposals, including dealing in own securities and treasury shares;
– to approve risk appetite limits and designated risk frameworks and policies;
– to approve expenditure in excess of € 20 million in accordance with the Board-approved delegated authority framework;
– to approve the provision of any guarantee, indemnity or security by a Group company or a sum exceeding € 100 million other than as part of a credit transaction which is approved in accordance with the credit approval process;
– to prepare financial statements which give a fair, balanced and understandable view of the state of affairs of the Group, to maintain adequate accounting records so as to ensure that such statements comply with statutory requirements and, on the recommendation of the Board Audit Committee, to approve any significant change in accounting policies;
– to approve the preliminary announcements of interim and full year financial results;
– to approve the statutory Annual Financial Report, Half-Yearly Financial Report and other published financial statements and information of the Company, including all circulars to shareholders;
– to appoint the Chairman of the Board, Non-Executive and Executive Directors, the Chief Executive Officer and the Group Company Secretary;
– to endorse the appointment of people who may have a material impact on the risk profile of the Group, and monitor on an ongoing basis their appropriateness for the role;
– to approve any decisions regarding the removal of Heads of Control Functions from office;
– to review and approve related party transactions under the applicable Listing Rules;
– to approve Class 1 transactions under the applicable Listing Rules and to recommend Class 2 transactions to shareholders;
– to convene a general meeting to allow shareholders to vote on any matter reserved specifically for shareholder approval, as determined under relevant legislation and/or the Listing Rules;
– to approve dividend policy and declare/recommend dividends to shareholders;
– to ensure the role of the Board is clearly defined and the roles of the executive and non-executive functions of the Board are distinguishable; such roles shall be described in a written document and approved by the Board; and
– to establish sub-committees of the Board and their terms of reference.

Relationship with the Irish State

The Group has received significant support from the Irish State (the “State”) in the context of the financial crisis due to its systemic importance to the Irish financial system. Following a reduction in its shareholding during 2017, the State now holds 71.12% of the issued ordinary shares of AIB Group plc.

The relationship between the Group and the State is governed by a Relationship Framework. Within the Relationship Framework, with the exception of a number of important items requiring advance consultation with or approval by the State, the Board retains responsibility and authority for all of the operations and business of the Group in accordance with its legal and fiduciary duties and retains responsibility and authority for ensuring compliance with the regulatory and legal obligations of the Group.

In considering the matters reserved for the Board, it should be noted that certain of those matters require advance consultation with, or consent from, the Minister for Finance. The conditions under which such prior consultation or approvals are required are outlined in the Relationship Framework which is available on the Group’s website at http://aib.ie/investorrelations.

Furthermore, the Relationship Framework is intended to ensure that the Minister (as controlling shareholder) complies with the independence provisions set out in the applicable listing rules. AIB has complied with the independence provisions in the Relationship Framework and as far as AIB is aware the independence and procurement provisions in the Relationship Framework have been complied with in the period by the controlling shareholder.

Key Roles and Responsibilities

Chairman

Mr Richard Pym leads the Board, setting its agenda, ensuring Directors receive adequate, accurate and timely information, facilitating the effective contribution of the Non-Executive Directors, ensuring the proper induction of new Directors, the ongoing training and development of all Directors, and reviewing the performance of individual Directors. Mr Pym was appointed as Chairman of the Group in 2014. Mr Pym currently has no other external directorship commitments. His biographical details are available on page 34.

Senior Independent Director

As Senior Independent Director ("SID"), Ms Catherine Woods acts as a conduit for the views of shareholders and is available as an alternate point of contact to address any concerns or issues they feel have not been adequately dealt with through the usual channels of communication. The SID also leads the annual review of the Chairman's performance and succession planning for the Chairman's role. She attends meetings with a range of major shareholders as required, to listen to their views in order to develop a balanced understanding of the issues of concern to them. Ms Woods was appointed to the role of Senior Independent Director on 30 January 2015 and her biographical details are available on page 34.

Deputy Chairman

Ms Catherine Woods was appointed as Deputy Chairman on 1 January 2018. In this role, Ms Woods steps in as acting Chairman of the Board, wherever necessary, and ensures continuity of Chairmanship as required. She deputises for the Chairman, supporting the Chairman in representing and acting as a spokesperson for the Board. The Deputy Chairman is available to the Board for consultation and advice.

Independent Non-Executive Directors

As an integral component of the Board, Independent Non-Executive Directors represent a key layer of oversight of the activities of the Group. It is essential for Independent Non-Executive Directors to scrutinise the performance of management in meeting agreed objectives and monitor the reporting on performance. They should bring an independent viewpoint to the deliberations of the Board that is objective and independent of the activities of the management and of the Group. They are expected to constructively challenge and help develop proposals on strategy. Biographical details for each of the Independent Non-Executive Directors are available on pages 34 to 35.

Chief Executive Officer (CEO)

Mr Bernard Byrne manages the Group on a day-to-day basis and makes decisions on matters affecting the operation, performance and strategy of the Group's business. He has established an Executive Committee which has responsibility for the day-to-day management of the Group's operations and assists and advises the CEO in reaching decisions on the Group's strategy, governance and internal controls, and performance and risk management.

Mr Byrne was appointed CEO of the Group with effect from 29 May 2015 and stands down from that role in early 2019.

As announced in December 2018, Dr Colin Hunt has been identified as the Board's proposed successor as CEO and Executive Director subject to the regulatory assessment process. As at the time of this Corporate Governance Report, the process is progressing well and expected to finalise shortly. His biographical details, as a current member of the Executive Committee, are available on page 36.

Executive Directors

Executive Directors have executive functions in the Group in addition to their Board duties. The role of Executive Directors, led by the CEO, is to propose strategies to the Board and following challenging Board scrutiny, to execute the agreed strategies to the highest possible standards. As at 31 December 2018, the Board had two Executive Directors, the CEO, who is referenced above, and the Chief Financial Officer, Mr Mark Bourke.

Executive Committee

The Executive Committee is the most senior executive committee of the Group and is accountable to the CEO. Subject to financial and risk limits set by the Board, and excluding those matters which are reserved specifically for the Board, the Executive Committee under the stewardship of the CEO has responsibility for the day-to-day management of the Group's operations. It assists and advises the CEO in reaching decisions on the Group's strategy, governance and internal controls, and performance and risk management. Up to 31 October 2018, the Leadership Team supported the CEO in this manner. Following a review of the executive governance structures as part of the new Operating Model, the Executive Committee was established in place of the Leadership Team. Biographical details of all Executive Committee members can be found on pages 36 and 37.

Group Company Secretary

The Directors have access to the advice and services of Ms Sarah McLaughlin, the Group Company Secretary, who is responsible for advising the Board on all governance matters, ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Group Company Secretary facilitates information flows within the Board and its Committees and between senior executive management. The Group Company Secretary communicates with shareholders as appropriate, and ensures that due regard is paid to their interests. Both the appointment and removal of the Group Company Secretary is a matter for the Board as a whole.

Governance and oversight – Corporate Governance report

How our Board meetings work?

Board Meetings	
▷ **In advance of the next calendar year**	– An indicative Work Programme is prepared by the Group Company Secretary in advance of the calendar year, informed by the Board's agreed priorities, the integrated strategy, financial planning and risk assessment process, and is agreed with the Board for the year ahead. – The Training Programme for the year ahead is set in tandem with the indicative Work Programme to ensure alignment of relevant training topics to planned agenda items. – Both Programmes are shared with key internal stakeholders to ensure preparedness and alignment across the Group.
▷ **Agenda setting**	– The Chairman sets the agenda for each Board meeting in consultation with the Group Company Secretary and the CEO. The agenda is driven by the indicative Board Work Programme and includes any material matters that have arisen since its agreement that require Board consideration or decision. – The Group Company Secretary and the CEO share the Board agenda with the Executive Committee to seek input on any other matters of relevance requiring the Board's attention and to ensure any emerging issues receive adequate agenda time. – The Chairman ensures Board agendas and the meetings themselves are structured to facilitate open discussion, debate and challenge.
▷ **Paper preparation**	– Unless circumstances or the nature of the topic determine otherwise, matters requiring Board attention are generally considered at an Executive Governance Forum or by an Executive Committee Member in advance. This ensures good governance is observed and appropriate challenge and due consideration of all relevant matters across the Group.
▷ **Paper distribution**	– Meeting papers are typically distributed one week in advance of the meeting to ensure sufficient time is available to the Directors to review the papers and prepare for the meeting, and to seek clarification or any additional information in advance of the meeting, where necessary. – Meetings papers are uploaded and communicated to Directors via a secure electronic board portal.
▷ **Before the Board meeting**	– Board Committee meetings are normally held in the days prior to the Board meeting, with the Chairman of each Committee reporting matters discussed and/or matters for approval at the subsequent full Board meeting. – Private sessions between the Independent Non-Executive Directors and members of management may be held to further explore issues. – Board training usually takes place on the evening before the Board meeting. This allows the Board to receive training on topics that are relevant to the agenda to further facilitate timely and constructive challenge and a consistent level of awareness of the subject matter. Training is provided by a mix of internal and external facilitators. – Board dinners are held on the evening prior to most Board meetings which allow for further informal discussion of current issues. Some, but not all, of these Board dinners include the Executive Directors and in some instances members of the wider Executive Committee are invited.

How our Board meetings work? *(continued)*

Board Meetings	
▷ **During the Board Meeting**	– The minutes of the previous meeting are reviewed and approved for signature. The Board action log is reviewed. – Each Board agenda includes certain standing items, such as the Executive Management Report which encompasses updates from the CEO, CFO and Chief Risk Officer, items recommended for approval from Board Committees, an overview of the business discussed at each Committee meeting and updates from the main business areas. – Other topics to be discussed will include topics of importance at that time. – In his opening remarks, the Chairman sets the focus of each meeting. In the rare event of a Director being unable to attend a meeting, the Chairman discusses the matters proposed with the Director concerned, seeking their support or feedback accordingly. The Chairman subsequently represents those views at the meeting. – Presenters are requested to take each paper as read, and highlight the key matters requiring the Board's attention. The Chairman encourages open debate and challenge through the participation of all Directors and attendees. In bringing discussions to a conclusion, the Chairman will confirm the Board's collective position. – The Chairman provides an update on matters of relevance from his own internal and external engagements in the recent period. – The Group Company Secretary will draw the Board's attention to any matter of importance and remind the Directors of their obligations under certain statutory or regulatory requirements, where necessary. Any actual, potential or perceived conflicts of interest are monitored and managed appropriately throughout the meeting.
▷ **After the Meeting**	– The Group Company Secretary and the Chairman will have a debrief of the meeting and consider any possible enhancements to its future operation. The operation of the meeting remains under regular review to ensure focus on continuous enhancement. – Minutes and actions arising from the meeting are produced and circulated to the Chairman for feedback, review and agreement within agreed timeframes. – Actions are provided to action owners to ensure responses are prepared and updates provided to the next meeting or at the most appropriate juncture and within the agreed timeframes.

In total, 12 scheduled meetings of the Board were held during 2018 and four additional out of course meetings.

Attendance at Board meetings of AIB Group plc is outlined below. Attendance at Board Committees is reported in the respective Committee reports which appear later in this report.

Name	Board (scheduled)		Board (out of course)	
Directors	Eligible to attend	Attended	Eligible to attend	Attended
Richard Pym	12	12	4	4
Simon Ball	12	12	4	3
Mark Bourke	12	12	4	4
Bernard Byrne	12	12	4	4
Tom Foley	12	12	4	4
Peter Hagan	12	12	4	3
Carolan Lennon	12	12	4	4
Brendan McDonagh	12	12	4	4
Helen Normoyle	12	11	4	3
Jim O'Hara	12	12	4	4
Catherine Woods	12	12	4	4

Governance and oversight – Corporate Governance report

During 2018, the Non-Executive Directors met on occasion in the absence of the Executive Directors.

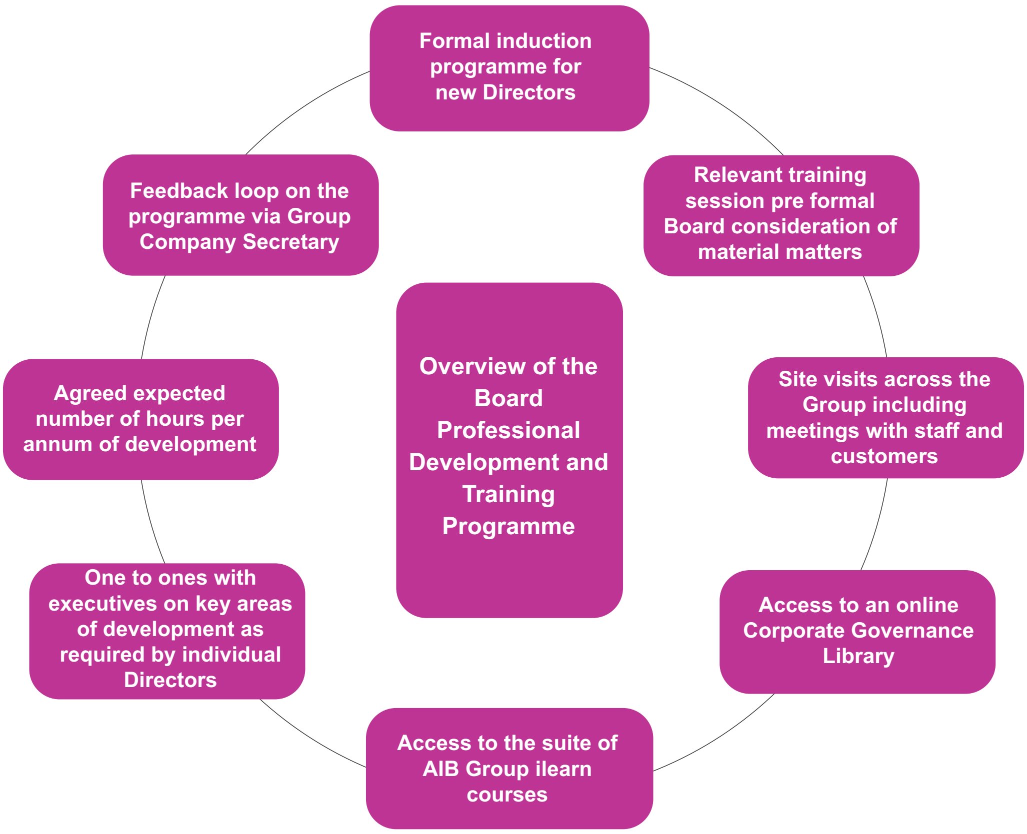
The Board of AIB Group plc and Allied Irish Banks, p.l.c. are coterminous. A number of the Non-Executive Directors are also Non-Executive Directors of the Group's other material regulated subsidiary companies, namely AIB Group (UK) p.l.c., AIB Mortgage Bank, EBS d.a.c. and EBS Mortgage Finance, which facilitates oversight of subsidiary activities and strong links between the Group and these material entities.

Outside of our Board Meetings

Non-Executive Directors see attendance at Board and Board Committee meetings as only one part of their role. In addition to the annual schedule of Board and Committee meetings, the Non-Executive Directors undertake a full programme of activities each year, including training, regularly meeting with senior management and spending time increasing their understanding of the business through site visits, formal briefing sessions or through attendance at events including those relating to staff or customers, and meetings with the Regulator. In 2018, all Directors attended the inaugural 'Tone from the Top' event. Full details of this event can be found on page 31.

Our professional development and training programme

The following graphic aims to provide an overview of the development and training undertaken by the Board. Some of these items were in place throughout 2018 whilst others have been introduced in 2019, prior to finalisation of this Report.



Board Focus in 2018

While not intended to be exhaustive, below is a high level overview of a number of matters considered by the Board and Board Committees during 2018:

Financial	Strategy	Culture and Values
– 2019 Budget – Financial Plan 2019 - 21 – 2017 results and analyst presentations – Approval of dividend – Funding and Liquidity Policy – ICAAP/ILAAP – IFRS 9 Programme	– Progress implementing the Group's 2017–19 strategy – Brexit – Future environment and business model – Strategy and integrated financial planning beyond 2019 – Property strategy – New Operating Model	– Updates on talent and culture – The outcome of the CBI behaviour and culture review – Sustainability Report and Conference – Employee engagement – Customer First activities
Governance and Shareholders	**Regulatory**	**Risk Management**
– Board effectiveness – Chairman's performance review – Board Diversity Policy – Corporate Governance frameworks – Investor Relations activities – AGM briefing – Subsidiary Governance – Board and Executive Succession Planning – CEO and CFO Succession Processes	– Regulatory updates – Regulatory inspections – AML and CTF updates – Market Abuse Regulation policies and practices – Related Party Lending	– Group Risk Appetite Statement – Risk Policies and Frameworks – Senior management retention risk – Group's Remuneration Policy – IRB Model Programme progress – Group Recovery Plan – General material risks, including those related to Brexit and the wider macro economy
Regular updates		
– Business performance update and outlook – Balanced scorecard performance – Financial performance update and outlook	– Risk Management – Tracker Mortgage Review Programme – Non-Performing Loans	– Chairman's activities – Board Committee activities

Testing our Corporate Governance Processes

At the Board Meeting in July 2018, the Board took part in an advanced scenario testing exercise, internally known as a Fire Drill, to simulate a potential adverse capital scenario that would trigger action under the Group's Recovery Plan. This simulation exercise sought to test the Group's processes and controls and the ability to respond quickly and appropriately across the Group in a heightened scenario. The Fire Drill enabled us to test the actions and responses of executive management, the Executive Committee and the Board, and those of the AIB UK Board and management team, as well as assessing their interactions.

It provided an opportunity to positively test the Group's corporate governance structures and the reactions of individuals and key areas across the Group, and created a greater level of awareness of the Recovery Plan and the speed and quality of response expected across the Group.

Following the Fire Drill, lessons learned and suggested improvements to the process were incorporated into the Recovery Plan. We will undertake another Fire Drill during 2019.

Governance and oversight – Corporate Governance report

Board Committees

The Board is assisted in the discharge of its duties by a number of Board Committees, whose purpose it is to consider, in greater depth than would be practicable at Board meetings, matters for which the Board retains responsibility. The composition of such Committees is required to be formally reviewed annually, however as indicated throughout the Report it is, in fact, a continuous process. Each Committee operates under terms of reference approved by the Board. The terms of reference of the Board Audit Committee, the Board Risk Committee, the Nomination and Corporate Governance Committee and the Remuneration Committee are available on the Group's website at http://aib.ie/investorrelations.

The minutes of all meetings of Board Committees are circulated to all Directors, for information and are formally noted by the Board. Papers for all Board Committee meetings are also made available to all Directors, irrespective of membership. Such circulation of minutes and papers are restricted should there be a conflict of interest or issues of personal confidentiality.

The Board has established a Sustainable Business Advisory Committee, comprising of Non-Executive Directors and members, of senior management to support the execution of the Group's sustainable business strategy, which includes the development and safeguarding of the Group's 'social license to operate', such that the Group plays its part in helping its customers prosper as an integral component of the Group's business and operations. Further details on our sustainability related activities are available on pages 20 to 25.

In carrying out their duties, Board Committees and the Advisory Committee are entitled to take independent professional advice, at the Group's expense, where deemed necessary or desirable by the Committee Members.

Reports from the Board Audit Committee, the Board Risk Committee, the Nomination and Corporate Governance Committee and the Remuneration Committee are presented later in this Annual Report.

Demonstrating Effectiveness through Corporate Governance

Board Appointments

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

In addressing appointments to the Board, a role profile for the proposed new directors is prepared by the Group Company Secretary on the basis of the criteria laid down by the Nomination and Corporate Governance Committee, taking into account the existing skills and expertise of the Board and the anticipated time commitment required. The services of experienced third party professional search firms are retained for non-executive director appointments, as required. In all recruitment processes, we aim to ensure a formal, rigorous and, acknowledging the need for confidentiality, transparent process.

Prior to all recommendations for appointment of a given candidate, a comprehensive due diligence process is undertaken, which includes candidates' self-certification of probity and financial soundness and external checks. The due diligence process facilitates the Committee in satisfying itself as to the candidate's independence, fitness and probity, and capacity to devote sufficient time to the role. A final recommendation is made to the Board by the Nomination and Corporate Governance Committee.

The Relationship Framework specified by the Minister for Finance (the "Minister"), which governs the relationship between AIB and the Minister, on behalf of the Irish State as shareholder, requires the Board to consult with the Minister before appointing, reappointing or removing the Chairman or Chief Executive Officer and in respect of any other proposed Board appointments. A Board-approved Policy for the Assessment of the Suitability of Members of the Board, which outlines the Board appointment process, is in place, and is in accordance with applicable joint guidelines issued by the European Securities and Markets Authority and European Banking Authority.

Induction and professional development

There is an induction process in place for new Directors, the contents of which varies for Executive and Non-Executive Directors. In respect of the latter, the induction is designed to provide familiarity with the Group and its operations, and comprises the provision of relevant briefing material, including details of the Group's strategic, business and financial plans, and a programme of meetings with the Chief Executive Officer and the senior management of businesses and support and control functions. A programme of targeted and continuous professional development to refresh their skills and knowledge is in place for Non-Executive Directors as part of the overall Board training programme.

Terms of appointment and time commitment

Non-Executive Directors are generally appointed for a three year term, with the possibility of renewal for a further three years on the recommendation of the Nomination and Corporate Governance Committee. Any additional term beyond six years will be subject to annual review and approval by the Board.

Following appointment, in accordance with the requirements of the Company's Constitution, Directors are required to retire at the next Annual General Meeting ('AGM'), and may go forward for reappointment, and are subsequently required to make themselves available for reappointment at intervals of not more than three years. The 2019 AGM is scheduled for 24 April 2019. In line with previous AGMs, all directors will retire from office at the date of the AGM and may choose to offer themselves for reappointment.

Letters of appointment, as well as dealing with terms of appointment and appointees' responsibilities, stipulate that a specific time commitment is required from Directors. Copies of Directors' letters of appointment are available to shareholders of AIB Group plc for inspection at the AGM and at the registered office during business hours on request from the Group Company Secretary.

Non-Executive Directors are required to devote such time as is necessary for the effective discharge of their duties.
The estimated minimum time commitment set out in the terms of appointment is 30 to 60 days per annum including attendance at Committee meetings.

Before being appointed, Directors disclose details of their other significant commitments along with a broad indication of the time absorbed by such commitments. Before accepting any additional external commitments, including other directorships that might impact on the time available to devote to their role, the agreement of the Chairman and the Group Company Secretary, and, in certain cases, the Central Bank of Ireland ("CBI"), must be sought.

Balance and Independence
Responsibility has been delegated by the Board to the Nomination and Corporate Governance Committee for ensuring an appropriate balance of experience, skills and independence on the Board. Non-Executive Directors are appointed so as to provide strong and effective leadership and appropriate challenge to executive management.

The independence of each Director is considered by the Nomination and Corporate Governance Committee prior to appointment and reviewed annually thereafter. It has been determined that all Non-Executive Directors in office during 2018, namely Mr Simon Ball, Mr Tom Foley, Mr Peter Hagan, Ms Carolan Lennon, Mr Brendan McDonagh, Ms Helen Normoyle, Mr Jim O'Hara and Ms Catherine Woods are independent in character and judgement and free from any business or other relationship with the Group that could affect their judgement. Mr Richard Pym was determined as independent on appointment in acknowledgement that his independence may be impacted during his tenure due to nature of the role and the level of engagement involved. Mr Pym is, however, regarded as continuing to operate in a manner that is independent in character and judgement.

Board Effectiveness
The Chairman of the Board leads the annual review of the Board's effectiveness and that of its Committees and individual Directors with the support of the Nomination and Corporate Governance Committee, which he also chairs. The annual evaluation is facilitated externally at least once every three years.

The objective of these evaluations is to review past performance with the aim of identifying any opportunities for improvement, determining whether the Board and its Committees are as a whole effective in discharging their responsibilities and, in the case of individual Directors, to determine whether each Director continues to contribute effectively and to demonstrate commitment to the role.

2018 Internal Effectiveness Evaluation
The Board conducts an annual evaluation of its effectiveness, and is required to have an external evaluation conducted once every three years. Having conducted a successful external evaluation in 2017, which was facilitated by Lintstock and reported on in the 2017 Annual Financial Report, an internal evaluation was carried out in 2018.

The 2018 evaluation was led by the Chairman and was facilitated by the provision of formal questionnaires by Lintstock. The provision of these questionnaires and production of a consolidated report by Lintstock on the outcome of that aspect of the internal evaluation process facilitated comparison of the outcome of the process in 2018 to the 2017 outcome to ascertain the level of progress made in the intervening period.

Lintstock is an independent external consultancy, who also conducted an effectiveness evaluation of the Group's UK subsidiary during 2018 but has no other connection to AIB Group.

Each Board member completed the online Lintstock questionnaire, which sought their views on a range of topics including Board composition and expertise, Board culture and dynamics, the Board's calendar and agenda, the quality and timeliness of information, strategy and operational matters, risk management and internal control, succession planning, human resource management, and priorities.

As part of the evaluation process, the Chairman met with each Director to review their individual performance. These reviews included discussion of the Director's individual contributions and performance at the Board and relevant Board Committees, the conduct of Board meetings, the performance of the Board as a whole and its Committees, compliance with Director-specific provisions of the relevant 2015 Requirements, the requirements of the Central Bank's Fitness and Probity Regulations, and any other specific matters which the Chairman and/or Directors wished to raise.

The performance of the Chairman was also assessed and, led by the SID, the Board met to discuss the Chairman's performance, in his absence. The SID subsequently provided an update on the positive outcome of the review to the Chairman.

A consolidated report on the findings of the full evaluation process was presented to the Board and the Committees.
The outcome of the evaluation was generally positive, concluding that the Board continued to be effective, with all Directors demonstrating commitment to their roles, with progress being made across all areas when compared to the

Governance and oversight – Corporate Governance report

previous year. During the evaluation, many Directors commented favourably on the performance of the Board as a whole, describing it as hardworking, appropriately challenging, and highly engaged.

Recommendations from the 2018 review, actions in respect of each which are actively underway, included:

- Board Papers: Similar to the prior year's evaluation, the Board expressed an appetite for greater brevity and clarity in Board papers. In response, processes have commenced to provide a more 'real time' opportunity for the Board to provide feedback to review the current standards and approach to the collation of executive and Board papers;
- Decision implementation: Directors are keen to implement a more formal process for them to assess the quality of the implementation of Board decisions and to review the effectiveness of past decisions. This aims to ensure the Board can continue to enhance effectiveness and learn from the past while ensuring a forward-looking focus;
- Board Work Programme: Directors recognised the progress made during 2018 in ensuring more time was spent on strategic matters and ensuring a longer term focus. Directors want to see that continue alongside a greater emphasis on culture and behaviours and the 2019 indicative Board Work Programme has incorporated these areas of activity; and
- Enhanced Stakeholder Engagement: Directors wish to continue to enhance engagement with key stakeholders, specifically customers and employees. As such, consideration is underway for opportunities to enhance such engagements and build on engagements that have already taken place and proven effective. In addition, Directors reaffirmed their appetite for the 'Tone from the Top' event held during 2018 to be repeated in 2019.

A summary of the Board's progress against the actions arising from the 2017 external effectiveness review are set out below.

▷ **Volume of Board/ Committee papers**	While observations on the volume of papers did appear again during the 2018 effectiveness review, a strong focus was applied to the refinement of papers during 2018 and improvements were acknowledged. In particular the CEO, CFO and CRO reports were reviewed and amalgamated into a more streamlined Executive Management Report, the first iteration of which travelled to the Board in early 2018.
▷ **Conduct of Board/ Committees**	2018 saw an in-depth review and focusing of agendas to ensure that the Board and Board Committees had sufficient time to devote to strategic thinking and constructive challenge. Particular focus was applied to the Board Risk Committee, the activity of which has grown due to the increasingly challenging regulatory environment.
▷ **Culture**	The Board engaged more directly on the topic of culture during 2018, and particular focus was brought about by the CBI's Review of Behaviour and Culture in the Banking Industry and CBI representatives' attendance at the December Board meeting in 2018. Significant progress was made internally across the areas of culture and diversity and inclusion, and a sharper focus is being planned throughout Board engagement in 2019.
▷ **Strategy**	As part of the intended evolution of the wider integrated and focused strategic programme under the direction of the CEO and the Head of Group Strategy, dedicated time was allocated to Board meetings to focus on strategic items, with significant time spent in May 2018 to review progress against the implementation of the strategy agreed in late 2017 and to frame the agenda for the strategic considerations to take place over the remainder of the year, culminating in a robust full day strategy session in November 2018. The focus of these sessions received positive feedback from the Board which is satisfied with progress and the direction being taken with regard to strategic focus and the process being embedded across the Group for 2019 and beyond.

Other matters related to Corporate Governance

Diversity

Employee diversity and inclusion in AIB Group is addressed through policy, practices and values which recognise that a productive workforce comprises of different work styles, cultures, generations, genders and ethnic backgrounds. AIB Group opposes all forms of unlawful or unfair discrimination. The efficacy of related policy and practices and the embedding of Group's values is overseen by the Board.

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

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

The original Board Diversity Policy for AIB Group was introduced in 2015 with an initial target to ensure the percentage of females on the Board reached or exceeded 25 per cent by the end of 2016. This target was met in October 2016. Thereafter the Board's aim was to ensure that the percentage of females on the Board remained at or exceeded 25 per cent.

On review of the Board Diversity Policy in July 2018, the Board set a new target to achieve 30 per cent female representation by the end of 2020 and thereafter, to take opportunities to increase the number of female directors over time, where that is consistent with other skills and diversity requirements. At 31 December 2018, the percentage of females on the Board stood at 27 per cent and the Board is confident it will reach its target by 2020.

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

The Board Diversity Policy and monitoring of performance relative to targets set out therein is a matter for the Committee, which discusses progress relative to the agreed targets in its Committee report on page 197. A copy of the Board Diversity Policy which applies to the Group is available on the Group's website at https://aib.ie/investorrelations/about-aib/corporate-governance.

The Board Sustainable Business Advisory Committee, which is reported on page 27, is tasked with considering and advising on AIB Group's policies relating to employee diversity in AIB Group generally.

Conflicts of Interest

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

Executive Directors, as employees of the Group, are also subject to the Group's Code of Conduct and Conflicts of Interests Policy for employees.

Access to Advice

There is a procedure in place to enable the Directors to take independent professional advice, at the Group's expense. The Group holds insurance cover to protect Directors and Officers against liability arising from legal actions brought against them in the course of their duties.

Shareholder Interaction

The Board recognises and values greatly the need to deliver a programme of engagement that offers all shareholders the opportunity to receive Group communications and to share their views with the Board.

The Group's website enables access to documents and communications as soon as they are published, including in relation to shareholder meetings.

With support from the Board and Executive Committee Members, Investor Relations has primary responsibility for managing and developing the Group's external relationships with existing and potential institutional equity investors and analysts. In addition to this direct shareholder engagement, Investor Relations provides regular reports to the Executive Committee and Board on key market issues and shareholder concerns.

The Group Company Secretary engages with retail shareholders and, with support from the Company's Registrar, Computershare Investor Services, delivers the Group's shareholder services, including in relation to shareholder meetings. The Group Company Secretary and her office provides feedback to the Board and appropriate Committees to ensure the views of retail shareholders are received and considered, where applicable.

The Annual General Meeting ("AGM") is an opportunity for shareholders to hear directly from the Board on the Group's performance and strategic direction, and importantly, to ask questions. Details in relation to the 2019 AGM along with other shareholder related information can be found on page 371.

Governance and oversight – Report of the Board Audit Committee

Letter from Catherine Woods,
Chairman of the Board Audit Committee

Dear Shareholder,

On behalf of the Board Audit Committee ('the Committee'), I am pleased to introduce the report on the Committee's activities during the financial year ended 31 December 2018.

At a high level the Committee ensures that the Group operates a strong control environment and acts independently of Executive Management so that the interests of the shareholders are appropriately protected in relation to internal control and financial reporting.

This year, we were pleased to welcome Mr Brendan McDonagh to the Committee; Brendan's extensive experience and skill set has enabled him to contribute fully to our discussions from the outset of his appointment; his membership and experience of the Board Risk Committee ("BRC") also serves to further ensure co-ordination with the work of the BRC, and facilitates effective governance across common risk and finance issues.

During 2018, the Committee continued to focus on the quality and integrity of the application of the Group's accounting policies and financial reports and disclosures. A key activity of the Committee is to consider the significant matters relating to the annual and interim accounts with key accounting judgements being subject to in depth discussion with management, and the External Auditor. It is vital that the Committee provides robust challenge to those judgements in advance of recommending to the Board that all financial reports are considered to be a fair, balanced and understandable assessment of the Group's financial position. The key matters of judgement considered by the Audit Committee in relation to the 2018 accounts, and how they were addressed, are set out below:

At the end of 2017, I noted that the Committee had focused considerable time on overseeing the Group's preparedness for the implementation of IFRS 9.

On 1 January 2018, the Group transitioned to IFRS 9 which resulted in an opening impact of € 267 million on shareholders equity. Throughout 2018, we received updates from management on the embedding of IFRS 9.

This accounting standard requires losses to be reflected 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 required management to develop new methodologies involving the use of subjective judgements as well as significant changes to systems, processes and controls. The key judgements include:

– The key accounting policies with respect to classification and measurement and credit impairment;
– Determining the criteria for a significant increase in credit risk and for being classified as credit impaired;
– Choosing the appropriate models and assumptions for measuring ECL;
– Determining the life of a financial instrument and therefore, the period over which to measure ECL;
– Key assumptions, including collateral valuation and cash-flow timings, used in discounted cash-flows ('DCFs') of individually assessed loans. DCFs are the most significant input to the ECL calculation for Stage 3 loans;
– Post model adjustments determined by management for certain portfolios; and
– The macro-economic scenarios and future outlook, including the potential impact of the withdrawal of the United Kingdom from the European Union on the Group's ECL and the probability weights attaching to each scenario.

The Committee has obtained regular and detailed reports and presentations from management throughout 2018 on the impact of IFRS 9 adoption and the process for determining the key assumptions noted above. The Committee has also considered the reports of independent assurance processes within the Group as well as reports from Group Internal Audit. In relation to forward looking macro-economic scenarios, the Committee has considered and challenged the process used by management to determine the assumptions and weightings, including the potential impact of Brexit. The Committee has also reviewed the sensitivities and disclosures on pages 89 to 92 and are satisfied these are balanced and fair. Based on the work performed, the Committee concurred with the conclusion reached by management that the level of provisions is within the acceptable range of outcomes.

The Committee also received reports from Management with respect to the net credit impairment writeback recorded in the income statement and adequacy of credit provisions at year end and concurred that the level of provisions were appropriate.

The Group has recognised significant deferred tax assets and it is projected that these assets will be utilised over an extended period. The assessment of the conditions for the recognition of a deferred tax asset is a critical judgement, given the inherent uncertainties associated with projecting profitability over a long time period.

In assessing the recognition of the deferred tax assets, the Committee has considered the Group's Financial Plan and the growth assumptions and profitability levels underpinning the Financial Plan. The Committee has also assessed the range of positive and negative evidence prepared by Management and the inherent uncertainties in any long term assumptions and projections. Based on this assessment, the Committee concluded that the assumptions used by Management in assessing the recognition of deferred tax assets are reasonable.

There is a high degree of estimation and judgement in the calculation of retirement benefit liabilities. These liabilities are highly sensitive to changes in the underlying actuarial assumptions including the discount rate, pension in payment increases and inflation rates.

In assessing the reasonableness of defined benefit obligation assumptions, the Committee has reviewed reports by Management setting out the processes for deriving the key assumptions and how these assumptions are benchmarked to external market data. The Committee has also reviewed assessments by independent actuaries that have been used as Management's opinion experts. Based on the work performed, the Committee agreed with Management's conclusion that the assumptions supporting the retirement benefit liabilities are reasonable.

The measurement of provisions, including those for customer redress and related matters, is highly judgemental, and involves a number of key assumptions relating to the identification of impacted customers and related redress costs.

The Committee has received detailed reporting from Management in relation to the status of the Tracker Mortgage Examinations, the process and assumptions used, and the results of independent assurance. The Committee has also evaluated the disclosures made in the financial statements around conduct provisions given the inherent uncertainties in their calculation and their judgemental nature. Based on this, the Committee concur with Management's conclusions on the reasonableness of provisions for customer redress and related matters.

In addition to our considerations of key judgements, the Committee continued to provide oversight on the operation of a strong control environment across the Group and 2018 evidenced progress on the effectiveness of internal controls. The Committee received regular reports from the Group Internal Audit function regarding control issues identified through the execution of the internal audit plan, as well as Management's response to those issues. Audit engagements continued to be rated based on the strength of both the control environment in operation, and Management's awareness of the risks facing their business areas, and the controls in place to mitigate those risks. The Committee also considered reports and presentations from the Auditor, Finance and Risk Management on the effectiveness of the control environment.

Once again this year, the Committee assessed and discussed control issues on a thematic, holistic basis against a number of "Key Control Enhancement Themes", against which improvements are driven by a specified, responsible Executive Committee Member. Considerable progress was made against the Assurance Framework for the Prudential Regulatory Reporting theme; in light of this, the Committee accepted the recommendation from the Group Head of Internal Audit to transfer that theme to business as usual in May 2018. Steady progress was made against the following themes in an evolving and demanding external environment: Key Person Succession/Handover; Oversight of subsidiaries, including a focus on AIB Group (UK) p.l.c.; IT Governance, Change and Third Party Management; Credit and Compliance Risk Management including Anti Money Laundering.

In light of a sustained focus on the enhancement and embedding of the three lines of defence model across the Group, a new control theme on First Line Assurance was also established in 2018. The Committee look forward to receiving updates from Management regarding the heightened control environment which we anticipate will be put in place. It is hoped that the continued implementation and roll out of the "Shield" risk management system, which provides a view of risk and control activity from the first to the third line, will assist in this regard. During the course of a Committee meeting, Management demonstrated the system and provided an overview of both current and future capabilities.

The Committee has responsibility for ensuring the appropriate arrangements are in place by which staff can, in confidence, raise concerns regarding possible improprieties in matters of financial reporting or other matters. We received regular updates from Management regarding the Group's whistleblowing or "Speak Up" arrangements in place, and the efficacy of same. The supporting policies and procedures are communicated to staff across the Group on an ongoing basis; the Committee will continue to ensure that appropriate support and arrangements are in place in this regard throughout the coming year.

The Committee continues to evaluate the independence and performance of Internal Audit and the External Auditor. In December 2018, the Group Head of Internal Audit commenced an acting leadership role within the Human Resources function on an interim basis, with a member of the Audit Senior Management Team undertaking the Acting Group Head of Internal Audit role. At that time, the Committee undertook a holistic assessment of any potential, perceived or actual conflicts of interest which may arise as a result, as well as an assessment of the strength and capacity of the Internal Audit function in the absence of the Group Head of Internal Audit, and any possible negative implications for the Group's control environment. The Committee satisfied itself that there were appropriate arrangements in place to address the issues discussed.

Governance and oversight – Report of the Board Audit Committee

This year saw a change in Lead Audit Partner, with Gerard Fitzpatrick of Deloitte stepping down in early 2018, and John McCarroll appointed. Following a smooth transition, the collaborative relationship with the External Auditor has continued, and the Committee look forward to working with Mr McCarroll in the coming year.

This year, I continued my practice of meeting with and engaging on an ongoing basis with the External Auditor, Chief Financial Officer, Group Head of Internal Audit and other members of executive management, as appropriate, throughout the year.

Further details on the Committee's activities, Members of the Committee and their record of attendance at meetings during 2018 are outlined in the full report below.

This will be my final letter to you as Committee Chair, given that 2019 marks the end of my nine year term as a Member of the Board. The past nine years constitute a transformational period in AIB's history and this has made my time on the Board both interesting and challenging. I would like to pay tribute to the significant contributions made by my fellow Members (both past and current) throughout my tenure as Chairman, and particularly so during 2018. Their support, dedication and insights have proven invaluable to me and AIB has benefitted immensely from their contributions. I wish them every success in the future.

Catherine Woods

Catherine Woods
Committee Chairman

Report of the Board Audit Committee

Membership and meetings

In 2018, the Board Audit Committee comprised five independent Non-Executive Directors whom the Board determined have the collective skills, competence and relevant experience to enable the Committee to discharge its responsibilities. To ensure co-ordination of the work of the Board Risk Committee with the risk related considerations of the Board Audit Committee, Mr Peter Hagan, Ms Catherine Woods and Mr Brendan McDonagh are also members of the Board Risk Committee. This common membership provides effective oversight of relevant risk and finance issues. Details of each of the Members are outlined on pages 34 to 35.

The Committee met on ten occasions during 2018, eight of which were scheduled, and two of which were out of course meetings. Additionally, the Members met with the Group Head of Internal Audit and members of the Senior Audit Leadership team to discuss the 2019 Group Internal Audit plan. All scheduled meetings were attended by the Chief Financial Officer, the Chief Risk Officer, the Group Head of Internal Audit, and the Lead Audit Partner from our External Auditor, Deloitte. Other senior executives also attended by invitation, where appropriate.

The Committee met with the External Auditor, the Chief Financial Officer, the Group Head of Internal Audit and the Chief Risk Officer, in the absence of Management, during the year.

The Chairman and Members of the Committee, together with their attendance at scheduled meetings, are shown below.

Members: Ms Catherine Woods, Chairman, Mr Tom Foley, Mr Peter Hagan, Mr Jim O' Hara and Mr Brendan McDonagh.

Member attendance during 2018:

	Eligible to attend	Attended
Catherine Woods	10	10
Tom Foley	10	10
Peter Hagan	10	10
Brendan McDonagh*	7	7
Jim O'Hara	10	10

**Mr Brendan McDonagh was appointed as a Member of the Board Audit Committee in May 2018 and as such was eligible to attend seven meetings of the Committee.*

To ensure ongoing awareness of the work of the Committee by all Directors, the Committee Chairman provided an update to the Board following each meeting on the key items discussed and considered by the Committee.

Committee purpose

A full overview of the responsibilities of the Committee are set out in its Terms of Reference. The Committee is appointed by the Board to assist the Board in fulfilling its independent oversight responsibilities in relation to:

- the quality and integrity of the Group's accounting policies, financial and narrative reports, and disclosure practices;
- the effectiveness of the Group's internal control, risk management, and accounting and financial reporting systems;
- the adequacy of arrangements by which staff may, in confidence, raise concerns regarding possible improprieties in matters of financial reporting or other matters; and
- the independence and performance of the Internal and External Auditors.

The Committee's Terms of Reference can be found on the Group's website at: https://aib.ie/investorrelations.

Governance and oversight – Report of the Board Audit Committee

Matters considered by the Committee

The following, while not intended to be exhaustive, is a summary of key items considered, reviewed and/or approved or recommended by the Committee during the year:

Area of focus	Role of the Committee
▷ **Financial and Narrative Reporting**	– Reviewed and recommended as appropriate significant financial reporting judgements and accounting assumptions made by Management. – Reviewed and approved, as appropriate, new accounting policies and changes to existing policies prior to implementation. – Considered the minutes of the Group Disclosure Committee in advance of recommending the financial statements to the Board. – Recommended to Board the approval of the Annual Financial Report.
▷ **Internal Control**	– Received reports from management regarding the operation and effectiveness of the system of controls over financial reporting. – Received reports from management regarding key internal controls in respect of fraud prevention and detection. – Received reports from management regarding compliance with regulatory outsourcing requirements. – Approved Directors' statements concerning internal controls to be included in the Annual Financial Report. – Reviewed the minutes of the subsidiary audit Committees of AIB Group (UK) p.l.c.; EBS d.a.c. and AIB Mortgage Bank.
▷ **Code of Conduct and Speak Up Policy**	– Received reports on the operation of the Group Code of Conduct and Conflicts of Interest Policy across the Group. – Received reports regarding the operation of the Speak Up policy and all other whistleblowing options available in the Group.
▷ **Internal Auditor**	– Considered the findings of internal audit reports and special investigation reports, and management's response to actions outlined therein. – Monitored progress against the agreed 2018 Group Internal Audit Plan, and progress against issues raised. – Considered the annual and half year audit opinion relation to the overall control environment. – Approved the Annual Internal Audit Plan for 2019. – Approved the Group Internal Audit Charter. – Approved the approach to compliance with Article 191 of the Capital Requirements Regulation, including the output of the Annual General Risk Assessment relating to Internal Models.
▷ **External Auditor**	– Reviewed the scope of the statutory external audit, as well as the findings, conclusions and recommendations of the External Auditor. – Reviewed and made recommendations to the Board regarding the Audit Representation Letter. – Reviewed and recommended to the Board the Policy on Employment of Former Employees of the External Auditor. – Reviewed annual report from management regarding the employment of former employees of the External Auditor across the Group. – Reviewed the level of non-audit fees paid to the External Auditor. – Approved the fees paid to the Statutory Auditor.

Internal Audit

The Committee provided assurance to the Board regarding the independence and performance of the Group Internal Audit function. The Committee considered and approved the annual audit plan, with reference to the principal risks of the business and the adequacy of resources allocated to the function. Throughout the year, the Chairman of the Committee met with Group Internal Audit management between scheduled meetings of the Committee to discuss forthcoming agendas for Committee meetings and material issues arising. The Committee also met with the Group Head of Internal Audit in a confidential session during 2018, in the absence of Management. The Group Head of Internal Audit has unrestricted access to the Chairman of the Board Audit Committee.

The Committee is responsible for making recommendations in relation to the Group Head of Internal Audit, including on appointment, replacement and remuneration, in conjunction with the Remuneration Committee, and confirming the Group Head of Internal Audit's independence.

External Audit

Following a tender process in 2013, Deloitte were appointed as the Group's Auditor. In accordance with the requirements regarding timelines for audit partner rotation set out in the EU Directive, John McCarroll was appointed lead Audit Partner in March 2018, replacing Gerard Fitzpatrick. The next tendering process for a new Group auditor will be no later than 2023.

The Committee provided oversight in relation to the Auditor's effectiveness and relationship with the Group, including agreeing the Auditor's terms of engagement, remuneration and monitoring the independence and objectivity of the Auditors. To help ensure the objectivity and independence of the Auditors, the Committee has established a policy on the engagement of the Auditors to supply non-audit services, which outlines the types of non-audit fees for which the use of Auditors is pre-approved. It also provides guidance regarding which non-audit services require specific approval from the Committee before they are contracted, and those from which the Auditor is excluded. Further details on the approach can be found at the Group's website at: https://aib.ie/investorrelations.

In addition, the Committee provided oversight in monitoring the effectiveness of the policy for the employment of individuals previously employed by the Auditor. The Committee reviewed the policy and received updates on its application, including the number of former employees of the external auditor currently employed in senior management positions in the Group, and facilitated its considerations as to the Auditor's independence and objectivity in respect of the audit. The policy was established in 2016 in accordance with the EU Audit Regulations 537/2014 and Directive 2014/56/EU.

The Committee considered the detailed audit plan in respect of the annual and interim financial statements and the Auditor's findings and the conclusions and recommendations arising from the half yearly review and annual audit. The Committee satisfied itself with regard to the Auditor's effectiveness, independence and objectivity through a number of mechanisms throughout the year. These included consideration of the work undertaken, confidential discussions with the Auditor, feedback received from Management and through its annual evaluation of the Committee's effectiveness, which incorporated questions regarding the external audit process.

On the basis of the above, and the Committee's determination of the Auditor's effectiveness, independence and objectivity, the Committee recommends that Deloitte should be reappointed as the Auditors at the Annual General Meeting on 24 April 2019.

Performance evaluation

An internal performance evaluation of the Board was conducted in 2018, as noted on page 183; this included a review of the Committee. The overall results of that review were positive and conclude that the Committee continued to operate in an efficient manner. A number of minor areas for enhancement have been set out in actions which will be tracked for conclusion in 2019.

Governance and oversight – Report of the Board Risk Committee

Letter from Peter Hagan,
Chairman of the Board Risk Committee

Dear Shareholder,

On behalf of the Board Risk Committee ('the Committee'), I am pleased to report on the Committee's activities during the financial year ended 31 December 2018.

The Committee's priorities continued to evolve in 2018, giving consideration to the external market, emerging areas of concern and the regulatory environment. The Committee maintained regular oversight of exposure to the material risks facing the organisation; to that end, conduct, credit, compliance, market and operational risks all remained significant areas of focus.

Due to a number of factors, including the proposed implementation of the Group's revised Operating Model, ongoing remuneration restrictions in place in the Irish banking industry and the announcement of notable departures of Executive Management team members, Operational Risk and People Risk came to the fore on a recurring basis throughout 2018. The Committee consideration of the mitigants to those risks will continue throughout 2019.

This year saw some positive Operational Risk developments, with continued enhancements to the Operational Risk management infrastructure in the Group, through the use of the "Shield" risk management system across the three lines of defence. Evidence of improvements in the quality of the internal Risk Control Assessment process undertaken by Management were monitored and assured by the Operational Risk function and reported to the Committee. Cyber Risk was also considered by the Committee, given the rapidly evolving external global threat landscape.

The development of modelling capabilities across the Group continued to be a key area of focus for the Committee. To that end, the Committee commissioned regular reports from management regarding progress against set deliverables. Positive developments, including the achievement of some significant milestones, have been evidenced by the Committee throughout the year, and the area will remain a focus throughout 2019.

The Committee continued to receive regular reports on the Group's efforts to ensure compliance with relevant Anti-Money Laundering and Counter Terrorist Financing regulations and compliance with appropriate sanctions regimes.

Other areas of focus for the Committee during 2018 included:
– the review of the proposed 2019 risk appetite statement and the ongoing monitoring of performance against agreed 2018 risk appetite metrics on an ongoing basis;
– the review of risk-related policies and frameworks, including the introduction of a Group Credit Policy Architecture Framework;
– updates regarding IFRS 9 implementation;
– the Group's recovery planning;
– the Group's capital and liquidity position, with particular reference to the Internal Capital Adequacy Assessment Process ("ICAAP") and Internal Liquidity Adequacy Assessment Process ("ILAAP"); and
– updates received on significant credit activity across the organisation.

In line with the trend of the previous number of years, the Committee spent a substantial portion of time discussing items related to the continuing regulatory agenda. The Group was subject to a number of constructive, in-depth inspections throughout the year and the resultant actions arising from the Single Supervisory Mechanism Risk Mitigation Programme were brought before the Committee for discussion. The effective execution and subsequent implementation of those actions by management has served to enhance the overall control environment in operation in the Group. It is anticipated that this positive engagement will continue into 2019 and beyond.

Further details on the Committee's activities, Members of the Committee and their record of attendance at meetings during 2018 are outlined in the full report below.

The Committee's focus in 2019 will continue to be on ensuring that the Group's risk culture, risk appetite, policies, procedures and management controls are sufficiently robust to support its ongoing financial progress and to withstand shocks in the market and economic environments in which the Group operates. The impact of the uncertainties regarding the UK's exit of the European Union on the risk profile of the Group and the related contingency plans and escalation mechanisms in place will also continue to be reviewed by the Committee.

As I approach the conclusion of my seven year term as an AIB Group Board Member, this is likely to be my final letter to you as Committee Chair. Looking back over those seven years, it is is satisfying to see that AIB has rebuilt a strong capital base, acquired exceptional liquidity, established stable profitability and significantly reduced the volume of problem assets on its books.

As important as these changes are, I take even more comfort from the new policies, procedures and standards that will facilitate ongoing control over the Group's risk profile. I have no doubt that given the calibre of my fellow Members, there will be continued focus on the material risks facing the organisation by the Committee. I would like to take this opportunity to express my gratitude to my fellow Members for their contribution to the effective working of the Committee throughout my tenure as Chairman, and particularly throughout the course of 2018.
I wish them well in their future endeavours.

Peter Hagan,
Committee Chairman

Governance and oversight – Report of the Board Risk Committee

Membership and meetings

In 2018, the Committee comprised five independent Non-Executive Directors who the Board determined have the collective skills and relevant experience to enable the Committee to discharge its responsibilities. To ensure co-ordination of the work of the Committee with the risk related considerations of the Board Audit Committee, Mr Peter Hagan, Ms Catherine Woods and Mr Brendan McDonagh are also members of the Board Audit Committee. This common membership provides effective oversight of relevant risk and finance issues. In addition, to ensure that remuneration policies and practices are consistent with and promote sound and effective risk management, common membership between the Committee and the Remuneration Committee is maintained through the joint membership of both Committees of Mr Simon Ball and Mr Brendan McDonagh. Details of each of the Members are outlined on pages 34 to 35.

The Committee met on ten occasions during 2018, nine of which were scheduled and one of which was a joint meeting with the Remuneration Committee. All meetings were attended by the Chief Financial Officer, the Chief Risk Officer, the Group Head of Internal Audit, the Lead Audit Partner from our External Auditor, Deloitte, and on occasion by the Chief Executive Officer. Other senior executives also attended by invitation, where appropriate. The Chief Risk Officer has attended all meetings of the Committee, has had unrestricted access to the Chairman of the Board Risk Committee, and met twice in confidential sessions with the Committee, in the absence of other management. Additionally, the Committee also met with the Group Chief Compliance Officer, the Group Head of Internal Audit and the Chief Credit Officer on one occasion each, in the absence of Management, during the year. The Chairman of AIB Group (UK) p.l.c. also attends meetings of the Committee by invitation, where appropriate.

The Chairman and Members of the Committee, together with their attendance at scheduled meetings, are shown below.

Members: Mr Peter Hagan, Chairman, Mr Simon Ball, Ms Carolan Lennon, Mr Brendan McDonagh and Ms Catherine Woods.

Member attendance during 2018:

	Eligible to attend	Attendance
Peter Hagan	10	10
Simon Ball	10	9
Carolan Lennon	10	9
Brendan McDonagh	10	10
Catherine Woods	10	10

To ensure ongoing awareness of the Committees work by all Directors, the Committee Chairman provided an update to the Board following each meeting on the key items discussed and considered by the Committee. The Committee Chairman continued to remain satisfied that the skills and experience of the Committee Members enable the Committee to provide the independent risk oversight it is tasked with, while maintaining a constructive relationship with Management.

Committee Purpose

A full overview of the responsibilities of the Committee are set out in its Terms of Reference. The Committee assists the Board in proactively fostering sound risk governance within the Group through ensuring that risks are appropriately identified and managed, and that the Group's strategy is informed by, and aligned with, the Board approved risk appetite. The remit of the Committee continues to evolve year on year. However, its primary roles and responsibilities are:

- providing assistance and advice to the Board in relation to current and potential future risks facing the Group and risk strategy in that regard, including the Group's risk appetite and tolerance, with a view to ensuring that the Board is equipped to fulfil its oversight responsibilities in relation to these;
- assessing the effectiveness of the Group's risk management infrastructure;
- monitoring compliance with relevant laws and regulation obligations;
- reviewing the Group's risk profile, risk trends, risk concentrations and risk policies;
- considering and acting upon the implications of reviews of risk management undertaken by Group Internal Audit and/or external third parties; and
- promoting a risk awareness culture within the Group.

The responsibilities of the Committee are discharged through its meetings, and through the regular commissioning, receiving and considering of reports from the Chief Risk Officer, the Chief Credit Officer, the Chief Financial Officer and the Group Head of Internal Audit, all of whom attend meetings of the Committee.

The Committee's Terms of Reference can be found on the Group's website at: https://aib.ie/investorrelations

Annual Review
Business Review
Risk Management
Governance and Oversight
Financial Statements
General Information

Matters considered by the Committee

The following, while not intended to be exhaustive, is a summary of the key items considered, reviewed and/or approved or recommended by the Committee during the year:

Area of focus	Role of the Committee
▷ **Risk Appetite, Risk Profile and Key Risk Areas/Issues**	– Reviewed regular reports from the Chief Risk Officer which provide an overview of key material risks, including funding and liquidity, capital adequacy, credit risk, market risk, regulatory risk, business risk, conduct risk, cyber risk, model risk and related mitigants. – Reviewed and recommended the Group and Subsidiary Risk Appetite Statement ("RAS") to the Board for approval, whilst ensuring alignment to the Group's business objectives, and that the subsequent business and strategic plans were developed in line with agreed RAS metrics. – Monitored the Group's risk profile against agreed Group RAS metrics on an ongoing basis, and recommending changes to the Group RAS as appropriate. – Reviewed periodic reports and presentations from Management and the Chief Credit Officer regarding the credit quality, performance, provision levels and outlook of key credit portfolios within the Group. – Assessed credit risk performance and trends, including regular updates on significant credit transactions. – Reviewed the ongoing operational risk profile, including significant operational risk events and potential risks. – Considered reports regarding the Group's risk management infrastructure, including actions taken to strengthen the Group's risk management governance, people skills, operational and system capabilities, and business continuity planning. – Reviewed and recommended to Board Management's proposed plans to address actions required under the Single Supervisory Mechanism Risk Mitigation Programme, and monitored progress against these deliverables on a quarterly basis. – Received status updates regarding compliance with the General Data Protection Regulation requirements across the Group.
▷ **Risk Frameworks and Policies**	– Approved and recommended risk frameworks and policies as appropriate, including those relating to credit and credit risk, model risk, people and culture risk and funding and liquidity.
▷ **Liquidity, Funding and Capital**	– Reviewed and recommended as appropriate capital planning, including consideration of the Group ICAAP and ILAAP reports and related Group wide stress test scenarios. – Reviewed the funding and liquidity policy and related stress tests.
▷ **Compliance**	– Received reports from the Group Chief Compliance Officer regarding compliance and conduct advisory services, fraud monitoring, horizon risk and regulatory change projects. – Received reports from the Money Laundering Reporting Officer regarding the status of the AML/CFT control environment, and compliance with Anti-Money Laundering/Financial Sanctions policies and frameworks.
▷ **Chief Risk Officer and Group Risk Function**	– Received reports regarding the structure and operation of the Risk and Compliance functions and progress against deliverables.

Performance evaluation

An internal performance evaluation of the Board was conducted in 2018 as noted on page 183 and this included a review of the Committee. The overall results of that review concluded that the Committee continued to operate in an efficient manner. Members noted the importance of continuing to ensure that the Committee maintain appropriate focus and oversight of the material risks facing the Group, and allow sufficient time to discharge those responsibilities. Targeted plans for improvement will be rolled out in 2019.

Governance and oversight – Report of the Nomination and Corporate Governance Committee

Letter from Richard Pym, Chairman of the Nomination and Corporate Governance Committee

Dear Shareholder,

On behalf of the Nomination and Corporate Governance Committee (the "Committee"), I am pleased to present our report on the Committee's activity during the financial year ended 31 December 2018.

As announced publicly in 2018 and referenced throughout the Report, our Chief Executive Officer ("CEO"), Mr Bernard Byrne, and Chief Financial Officer ("CFO"), Mr Mark Bourke, regrettably informed us in late 2018 of their intention to resign from AIB Group in early 2019. Furthermore, and as announced on 27 February 2019, Mr Simon Ball has notified the Board of his intention not to stand for re-election at this year's Annual General Meeting. Added to this, three of our long-standing and valuable Non-Executive Directors are due to step down during 2019.

These developments, along with the continued evolution of corporate governance requirements and the introduction of new, or in some cases enhanced, requirements that the Group is required to adhere to, resulted in a very busy year for the Committee, whose primary areas of focus under its Board-approved Terms of Reference relate to succession planning for the Board and Senior Executives and the Group's corporate governance policies and practices.

Each year the Committee regularly reviews the suitability of the composition of the Board and the composition of the Board Committees. However, with the number of changes imminent, the Committee spent a significant amount of time in 2018 developing a longer-term Board succession plan, which had regard for current Directors' tenure and the required skill set, experience and diversity profile of the Board as a collective now and into the future. The Committee also identified any potential gaps that would need to be addressed following the departure of current Directors and ensured identification of actions required to ensure preparedness of timely appointments.

In line with the Joint European Securities and Markets Authority ("ESMA") and European Banking Authority ("EBA") Guidelines on the Assessment of Suitability of members of the management body and key function holders, a collective suitability assessment of the Board was also carried out during the year. Such assessments facilitate the Committee in ensuring its processes to assess the suitability of the Board as a collective are continually enhanced and sufficiently robust.

This work culminated in the identification of four profiles or specific Board roles requiring successors for immediate focus in 2018, and action was commenced to ensure the timely appointment during 2019 of suitable high-calibre successors to the following roles:

- Chairman of the Board Audit Committee;
- Chairman of the Remuneration Committee;
- Chairman of the Board Risk Committee;

A fourth profile was identified for immediate focus in 2018, and action commenced to ensure the continuation of the current skill set and experience profile of the Board on matters relating to risk management and investment banking in preparation for the departure of certain directors during 2019.

While the Committee developed candidate specifications for these particular identified roles and skill sets, potential candidates were also required to be of sufficient calibre and suitable for appointment to the Board as Non-Executive Director and enhance the Board's overall effectiveness, facilitating the Board in fostering a culture where a commitment to high standards and customer values was at the heart of decision-making.

In addition, the Committee considered the nominees of the Minister for Finance who had been selected by the Minister through a Public Appointment Service process. The Ministers' nominees were subject to the same level of consideration and suitability review by the Committee as applied to all other Non-Executive Directors.

Turning to executive succession planning, the Committee continued to ensure the adequacy of succession planning and contingency arrangements for key executive roles. Executive succession planning is of utmost importance and is a key area of focus for the Committee. The Group's Remuneration Policy is governed by restrictions contained in certain agreements with the Irish State. The resignation of a number of senior executives during 2018, including the CEO and CFO, supports the validity of the Board's concerns regarding heightened people risk and the impact of the continuing limitations on the Board's ability to exercise its authority and discretion over remuneration, in line with EBA Guidelines on Sound Remuneration Policies. Against that backdrop, and acknowledging increasing competition in the market, executive succession planning, while challenging, becomes even more vital to ensure the long-term sustainability of the business. The Remuneration Committee report on page 201 further describes the Group's considerations in this regard.

Following news of their intended departures, the Committee set about the succession search process; (1) with the CEO, to identify the preferred successor to the CFO; and (2) to identify the preferred successor to the CEO, each of which require consultation with the Minister for Finance and the submission of applications to the Central Bank of Ireland and the European

Central Bank for fitness and probity assessment processes, prior to final Board approval. Alongside these succession considerations, the Committee also discussed the appointment of additional Executive Directors and agreed that the Deputy CEO would be appointed as an Executive Director, subject to the fitness and probity assessment process and that the CFO would attend Board meetings as a regular attendee.

Following rigorous processes, both the CEO and CFO successors have been identified from within the ranks of AIB Group. This is a positive reflection of the strength and calibre of talent across AIB. I look forward to working with Dr Colin Hunt who was announced in December 2018 as the Board’s proposed successor to the role of CEO and Executive Director subject to the regulatory assessment process. The regulatory assessment processes relating to Dr Hunt’s proposed appointments and a successor to the CFO role respectively are progressing well and are expected to finalise shortly.

In reviewing the executive succession plan, the Committee requires management to ensure appropriate and effective plans are in place to develop and nurture high performing individuals and identified potential successors to further strengthen our succession pipeline. The Committee receives updates from management on such plans and related progress.

The Committee challenged the Board Diversity Policy in 2018 and recommended a more progressive Policy to the Board, which it approved. You will have read earlier in the Report that we have now set ourselves a target of reaching at least 30% female representation on the Board by 2020.

We have made great progress in improving the gender profile of the Board since the implementation of the first Board Diversity Policy in 2015, and, more widely, I am proud of the efforts made across our business to foster an environment of diversity and inclusion. Further information on the Group’s approach to and focus on diversity and inclusion can be found at page 17.

I would like to thank my fellow Committee Members for their unwavering commitment in what was an extremely busy and, at times, testing year. In particular, I would like to acknowledge the support and leadership shown by Ms Catherine Woods on the Committee during 2018 and in her roles as Senior Independent Director and Deputy Chairman. As Catherine prepares for her own departure, reaching her nine year term in October 2019, she will facilitate the Committee in ensuring appropriate successors to those two key roles. Each of Directors departing the Group in 2019 have shown great commitment to AIB during their tenure and will be missed.

Looking ahead, the Committee will continue to ensure that focus remains on selecting the most suitable and high-calibre individuals for the Board and to lead the business.

Richard Pym

Richard Pym
Committee Chairman

Governance and oversight – Report of the Nomination and Corporate Governance Committee

Membership and meetings

The Committee was comprised of three Independent Non-Executive Directors and the Chairman, who was independent on appointment, during 2018. Its composition is fully compliant with the Central Bank of Ireland's Corporate Governance Requirements for Credit Institutions 2015, the UK Corporate Governance Code 2016 and the Capital Requirements Directive IV.

The Chairman of the Board is the Chairman of the Committee and chairs all meetings, other than when the Committee is dealing with the process for appointing a successor to the role of Board Chairman. In such instances, the Senior Independent Director, Ms Catherine Woods, leads the Committee discussions. Biographical details of each of the Committee Members are outlined on pages 34 to 35.

The Committee met nine times during 2018, four of which were scheduled meetings. The Chairman and Members of the Committee, together with their attendance at meetings, are shown below. The Committee meets regularly with no management present. The Chief Executive Officer, Chief People Officer and other members of management are invited to attend meetings where the agenda item is relevant and their attendance is requested by the Committee.

Member attendance during 2018:

	Eligible to attend	Attended
Richard Pym	9	9
Simon Ball	9	8
Jim O'Hara	9	8
Catherine Woods	9	9

During 2018, the Committee engaged Merc Partners and Korn Ferry to facilitate searches for new Non-Executive Directors.

It should be noted that Korn Ferry have been engaged by the Group for a number of candidate searches in recent years. Korn Ferry has also been appointed by AIB Group to conduct a number of internal management assessments. Separately, Korn Ferry has been appointed by the Minister for Finance to conduct a Remuneration Review; confirmation was received that parties engaged by AIB Group during the candidate search processes were separate to those engaged in the Minister's Review. The Group is mindful at all times of the need to avoid possible conflicts of interest.

Merc Partners has been engaged by the Group for a number of candidate searches in recent years but has no other relationship with the Group.

To ensure ongoing awareness of the Committee's activities by the full Board, the Chairman provides an update to the Board following each meeting on the key items discussed and considered by the Committee.

Committee purpose

A full overview of the responsibilities of the Committee are set out in its Terms of Reference. The purposes of the Committee are:

- to support and advise the Board in fulfilling its oversight responsibilities in relation to the composition of the Board by ensuring it is comprised of individuals who are best able to discharge the duties and responsibilities of Directors to include leading the process for nominations and appointments to the Board and Board Committees as appropriate, and making recommendations in this regard to the Board for its approval;
- to support and advise the Board in fulfilling its oversight responsibilities in relation to the composition of the Group's Executive Committee and the composition of the boards of its licensed subsidiaries; and
- to keep Board governance arrangements, corporate governance compliance and related policies under review and make appropriate recommendations to the Board to ensure corporate governance practices are consistent with best practice corporate governance standards.

The Committee's Terms of Reference can be found on the Group's website at: https://aib.ie/investorrelations

Matters considered by the Committee

The following, while not intended to be exhaustive, is a summary of the key items considered, reviewed and/or approved or recommended by the Committee during the year:

Area of focus	Role of the Committee
▷ **Non-Executive Board composition and succession planning**	– Considered the Board and Board Committee's collective composition. – Identified, in particular, actions required in anticipation of the conclusion of Mr Hagan's seven year term and Ms Woods and Mr O'Hara's respective nine year terms. – Developed a three year Board succession plan to ensure preparedness for anticipated changes over that period. – Prepared candidate specifications containing the key competencies and skills expected of Non-Executive Directors and other pertinent details, such as time commitment expectations, in advance of commencing searches for individuals for appointment to the Board and key Board roles. – Engaged Korn Ferry and Merc Partners to facilitate searches for new Non-Executive Directors. Open advertising for Independent Non-Executive Directors positions was not used by AIB in 2018 as the Committee believes that targeted recruitment is the optimal way of recruiting for such positions. – Oversaw the search process for Non-Executive Director candidates and assessed potential successors for all roles, and kept the Board abreast of progress. – Shortlisted candidates were interviewed by Committee Members and the Committee met as a whole to discuss feedback and reach consensus prior to recommending to the Board for consideration and approval. – Assessed the independence of individual Directors against certain criteria, including whether Directors were demonstrably independent and free of relationships and other circumstances that could affect their judgement, and whether they met criteria set out in applicable Irish and UK regulations.

▷ **Executive Directors and Committee succession planning**	– Considered updates on executive management succession strategy and received updates from Chief People Officer on succession plans, including emergency cover, the talent pipeline and identified areas for enhancement and proposed actions in that regard.
	– Considered proposals for appointments to the new Executive Committee roles under the new Operating Model.
	– Considered proposals for appointments to the roles of Deputy CEO, Deputy CFO and CFO following receipt of notice of the intended departure of the CFO in early 2019.
	– Considered proposals for appointment to the role of CEO following receipt of notice of the intended departure of the CEO in early 2019. The process undertaken was rigorous and included:
	  – Receipt of internal nominations for consideration in the search process.
	  – Appointment of Korn Ferry to facilitate the search process for a CEO successor, which included a market assessment and assessment of internal and external candidates. A consistent process was used to assess internal and external candidates and included; (i) Korn Ferry's assessment of competency, psychometrics and potential; (ii) external market benchmarking; and (iii) interviews by the Committee members and another selected Non-Executive Director.

Governance and oversight – Report of the Nomination and Corporate Governance Committee

Matters considered by the Committee *(continued)*

Area of focus	Role of the Committee
▷ **Executive Directors and Committee succession planning *(continued)***	– These results, along with external candidate profiles were reviewed by the Committee, and following this, Members of the Committee met with all shortlisted candidates. – The Committee discussed each potential candidate in detail with Korn Ferry and separately in private sessions on a number of occasions following which the Committee engaged with the wider Board for feedback and input following which a final decision on the preferred candidate was made and a regulatory application for fitness and probity assessment submitted. – Notwithstanding the need for the regulatory fitness and probity assessment process to be conducted, the Committee and the Board considered the selection of a preferred candidate by the Board in the context of Market Abuse Regulations. Having received advice from the Group Company Secretary and external legal counsel, it was deemed that such a selection constituted inside information under the Regulations and an immediate announcement was required to the market.
▷ **Corporate Governance considerations, subsidiary related matters**	– Considered the Group's corporate governance policies and procedures. Policies reviewed during 2018 included the Board Governance Manual and matters reserved for the Board, the Board Code of Conduct and Conflicts of Interests Policy, the Board Diversity Policy, the Governance and Organisation Framework, Committee Terms of Reference, and the Policy on assessment of suitability of Members of the Board. – Assessed the continued appropriateness of and the extent to which the Group Subsidiary Governance Framework had been embedded since its establishment in late 2017. – Received regular updates regarding compliance by the material licensed subsidiaries with applicable regulation and guidance and, recognising improvements in recent years, noted the need for continued enhancement in subsidiary governance and oversight. – Consideration of subsidiary board composition and agreed a number of subsidiary board appointments. – Discussed the implications of the corporate governance aspects of the EBA Guidelines on internal governance and joint ESMA and EBA Guidelines on the assessment of suitability of members of the management body and key function holders and actions required to enhance processes to ensure compliance with those Guidelines. – Discussed potential areas for enhanced focus in anticipation of the UK Corporate Governance Code 2018.

Performance Evaluation

An internal performance evaluation of the Board and Board Committees was conducted during 2018 as noted on page 183, and included a review of the Committee. The review concluded that the Committee continued to operate in an efficient manner. During the evaluation, the Committee Members emphasised the importance of continued focus on executive succession planning and ensuring adequate time was allocated to corporate governance matters. The amount of change to the Board's composition was also highlighted during the evaluation as an area needing careful monitoring during 2019 and is something that is front and centre on the Committee's 2019 indicative Work Programme.

Governance and oversight – Report of the Remuneration Committee

Letter from Jim O'Hara, Chairman of the Remuneration Committee

Dear Shareholder,

On behalf of the Remuneration Committee (the "Committee"), I am pleased to present our report on the Committee's activity during the financial year ended 31 December 2018.

We've reported previously on the remuneration restrictions contained in certain agreements with the Irish State following the State's recapitalisation of the Group in 2010 and 2011 ("State Agreements") and the continuing impact of these restrictions on the Group's ability to retain and attract key members of senior management. These restrictions include salary caps and the inability to return to a variable pay environment that would be standard across comparative peers. The impact of these restrictions became more prevalent as we prepared for the transition from full State ownership and the initial public offering ("IPO") in 2017. The risk relating to the potential loss of senior management as a result of these restrictions was highlighted in the IPO Prospectus in 2017 and in the 2017 Annual Report published in 2018.

The Committee and the Board as a whole remain concerned about the impact of these continuing restrictions and are acutely aware of the heightened key people risk in the Group. The potential loss of senior management, a risk that was highlighted in the IPO Prospectus, clearly manifested itself during 2018 in the resignations of a number of key staff, most notably the Chief Executive Officer and the Chief Financial Officer.

While the Committee continued to monitor and address key people risk, where possible, during 2018, the loss of senior talent in this way remains of critical concern to the Committee and the Board as we strive to secure the future stability and performance of the Group. The Committee also remains aware that external factors, including the number of financial services firms relocating to Dublin, have increased competition for attracting and retaining employees at all levels of the Group.

During 2018, as in previous years, the Committee spent a significant amount of time in formal and informal meetings with management and external remuneration consultants seeking to find ways to address key people risk. A number of meetings were arranged throughout the year with stakeholders and key investors and attended by either the Chairman of the Board or I, in my capacity of Chair of the Committee. The overall theme of these conversations centred on the need to move to address the Group's remuneration model constraints and ensure alignment of the remuneration of key executives with the long-term stability and performance of the Group.

It was with these risks in mind that I wrote to you last year outlining the Group's plans to introduce an incentive plan with the key objective of retaining key executives and creating long-term sustainable value for customers and shareholders. While the construct of the plan received the approval of 99.97% of all other independent shareholders including major institutional shareholders and retail shareholders, it was not supported by the State, the Group's majority shareholder, and consequently the plan was not implemented.

While this was a very disappointing outcome for the Group and the Board, the Group welcomed the State's initiative in launching a review of remuneration policy across all impacted banks within the State to determine if it remains fit for purpose. In this respect, the terms of reference of the review were agreed and an external consultancy firm appointed to undertake the review in conjunction with the State's Department of Finance. Notwithstanding the outcome of our efforts in early 2018, to ensure preparedness and continued focus on this area of concern, we continued during the second half of 2018 to consider how we would progress towards a more normalised remuneration policy, which would offer an all employee share plan alongside a deferred executive share plan, should the opportunity arise in the near future.

As at the time of writing, the outcome of the Minister's review is pending and the Committee looks forward to recommendations being issued during the course of 2019. It is considered important to await the outcome of the review and, so, it has been decided that no new remuneration proposal will be brought to the Annual General Meeting this year.

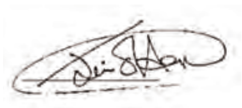
The Committee's desired remuneration policy remains to implement a competitive, market-aligned, performance-related remuneration model, fully compliant with CRD IV and EBA Guidelines, which will mitigate the Group's key people risks and align the remuneration of our staff with the achievement of Group strategic objectives. Following the conclusion of the State's remuneration review and clarity on any potential recommendations that might arise at that time, the Committee will consider the Group's Remuneration Policy. Should there be a need subsequently to present an updated Remuneration Policy to shareholders we will recommend to the Board that a shareholder meeting be convened. In the meantime, the Group's Remuneration Policy remains under review and continues to be governed in accordance with the remuneration restrictions contained in the State Agreements.

Governance and oversight – Report of the Remuneration Committee

Further information on the Group's Remuneration Policy is contained on page 205. I look forward to seeing many of our shareholders at the AGM and the opportunity to hear their views on remuneration matters.

As indicated in the Report, I am due to conclude my nine year term on the Board of AIB Group in October 2019 and, therefore, this will be my final report as Committee Chairman. I know that, in my absence, the Committee and the Board as a whole will ensure continued focus on those matters of greatest relevance to the long-term sustainability of the Group.

I would like to acknowledge the invaluable input and support from my fellow Committee Members and thank them for their continued efforts throughout 2018. I look forward to driving the remuneration agenda forward in 2019 and I wish my fellow Board members and AIB Group all the best in the future.



Jim O'Hara
Chairman of the Remuneration Committee

Membership and Meetings

During 2018, the Committee comprised of three Independent Non-Executive Directors and the Chairman, who was independent on appointment. Its composition is fully compliant with the Central Bank of Ireland's Corporate Governance Requirements for Credit Institutions 2015, the UK Corporate Governance Code 2016 and the Capital Requirements Directive IV.

There was one change to the Committee's composition during the year, reflecting actions agreed in the Board Succession Plan, with Mr Tom Foley stepping down and being replaced by Mr Brendan McDonagh on 1 September 2018. In order to ensure that remuneration policies and practices are consistent with and promote sound and effective risk management, common membership between the Remuneration Committee and the Board Risk Committee is maintained, with Mr Simon Ball and Mr McDonagh being a members of both Committees.

Biographical details of each of the Committee members are outlined on pages 34 to 35.

The Committee met eight times during 2018, six of which were scheduled meetings and one being a joint meeting with the Board Risk Committee. The Chairman and Members of the Committee, together with their attendance at meetings, are shown below. The Committee met on one occasion with no management present. The Chief Executive Officer, the Chief People Officer and Head of Reward and other members of management are invited to attend the meetings where the agenda item is relevant and at the request of the Committee. The Chief Risk Officer is a permanent attendee unless the topic under discussion relates to her own remuneration or that of her executive colleagues. No member of management is permitted to attend where a specific proposal relating to their own remuneration is scheduled for discussion.

Member attendance during 2018:

	Eligible to attend	Attended
Jim O'Hara	8	7
Simon Ball	8	8
Richard Pym	8	8
Brendan McDonagh*	3	2
Tom Foley*	5	5

**Tom Foley resigned from the Committee on 1 September 2018 and Brendan McDonagh was appointed on the same date.*

During 2018, the Committee used the services of Willis Towers Watson ("WTW") and PricewaterhouseCoopers ("PwC") for advice on market-based remuneration practices, compliance and training. WTW are solely focused on Human Resources and remuneration consultancy and have no other relationship with the Group. PwC provide a range of consultancy services to the Group. WTW has a standing invitation to attend Committee meetings where their advice would enhance the discussion at the Committee. PwC were invited to attend a number of meetings to provide further advice and guidance on matters of remuneration policy.

To ensure ongoing awareness of the Committee's activities by the full Board, the Committee Chairman provides an update to the Board following each meeting on the key items discussed and considered by the Committee.

Committee Purpose

A full overview of the responsibilities of the Committee are set out in its Terms of Reference. The purposes of the Committee are:

– to oversee the design and implementation of the Group's overall Remuneration Policy for employees and directors, designed to support the long term business strategy, values and culture of the Group as well as to promote effective risk management and comply with applicable legal and regulatory requirements;

– to oversee the operation of Group-wide remuneration policies and practices for all employees, with specific reference to Executive Directors, the Chief Executive Officer, Executive Committee members, Heads of Control Functions and Material Risk Takers; and

– to perform any other functions appropriate to a Remuneration Committee or assigned to it by the Board.

The Committee's Terms of Reference can be found on the Group's website at https://aib.ie/investorrelations

Governance and oversight –
Report of the Remuneration Committee

Matters considered by the Committee

The following, while not intended to be exhaustive, is a summary of the key items considered, reviewed and/or approved or recommended by the Committee during the year:

Area of focus	Role of the Committee
▷ **Remuneration Model and Key Remuneration Risks**	– Considered the continued heightened retention risk of key executives and the impact of the continuing remuneration constraints more generally across the Group. – Reviewed potential future variable remuneration plan designs with the primary objective of safeguarding the retention of key executives, delivery of a share plan for all staff and the delivery of the Group's strategic objectives. – Reviewed the EBA Guidelines on Sound Remuneration Policies to better understand the governance that applies to remuneration models. – Considered the appropriateness or otherwise of the Group's Remuneration Policy and the likely outcome of the Minister's review into remuneration in the banking industry. Considerations included what should be proposed to the shareholders at the 2019 AGM, having regard for the outcome of the 2018 AGM advisory vote on the Group Remuneration Policy. – Assessed the key risks impacting the Group's current remuneration structure and practices and received an update from the Chief Risk Officer on remuneration related risks. – Considered the cap on pay specifically in the context of the CEO's remuneration package relative to local peers. – Considered the remuneration packages in the context of the new Operating Model.
▷ **Compliance and annual matters for review**	– Reviewed the composition and remuneration components of Identified Staff. – Reviewed ongoing compliance with relevant statutory disclosures, regulatory requirements and guidelines. – Reviewed the process for the identification of Material Risk Takers. – Reviewed the duties and responsibilities of the Committee in accordance with the requirements of CRD IV and EBA Guidelines on sound remuneration practices. – Reviewed the Committee's Terms of Reference to incorporate any regulatory or legislation changes relating to the activities and operations of the Committee.

Performance Evaluation

An internal performance evaluation of the Board and Board Committees was conducted during 2018 as noted on page 183, and included a review of the Committee. The review concluded that the Committee continued to operate in an efficient manner. The Committee Members highlighted the need for further enhancements to the quality of the information and support provided to the Committee. In order to improve the quality of information, an action has been taken to clarify the Committee's expectations in terms of external advisors and provide an opportunity for feedback at each Committee meeting.

Directors' Remuneration

Details of the total remuneration of the Directors in office during 2018 and 2017 are shown in the Directors' Remuneration report on pages 208 to 210. It should be noted that where an Executive Director holds a Non-Executive Directorship at an external company, they do not receive a fee. Limitations on such external directorships are outlined in CRD IV and both of the Group's Executive Directors are fully compliant with those 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 recapitalisation by the Irish Government in 2010 and 2011. These restrictions include a cap on salaries and allowances in the amount of € 500,000 and a ban on the introduction of any new bonus or incentive schemes, allowances or other fringe benefits. They apply to all directors, senior management, employees and service providers across the Group. Additionally, Irish taxation legislation applies an excess tax charge on certain remuneration, such as bonus payments, paid to employees of financial institutions in Ireland that have received financial support from the State.

The continued application of these constraints preclude the Group from applying market aligned remuneration policies and practices and represent a significant challenge to the Group in attracting and retaining high calibre and specialist staff.

Remuneration Policy and Governance

The Group's Remuneration Policy, operating within the confines of the above remuneration constraints, sets out the overall framework, philosophy and principles under which all AIB's remuneration policies, procedures and practices operate.

The Remuneration Policy sets out the key components of the Group's current remuneration structure together with the functional responsibilities for governance and the remuneration approach for key groups of individuals, including Executive and Non-Executive Directors, members of the Executive Committee, material risk takers and all other employees. The 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. Key remuneration principles focus on simplicity, transparency, fairness, performance alignment, external market positioning and strong risk management. The scope of the Remuneration Policy includes all financial benefits available to employees and applies to all employees of the Group.

The Group undertakes an annual review of the Remuneration Policy to ensure that remuneration policies and practices are operating as intended, are consistently applied across the Group and are compliant with regulatory requirements. The annual review is informed by appropriate input from the Group's risk, compliance and internal audit functions. During 2018, the policy was updated to incorporate the Group's remuneration philosophy. There were no other material changes made to the policy arising from the review.

The Remuneration Policy is governed by the Remuneration Committee on behalf of the Board. 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.

European Banking Authority (EBA) Guidelines

The Remuneration Policy reflects the relevant provisions of the EBA Guidelines as they apply to the Group's current remuneration practices and the requirements of the Senior Managers Regime in respect of the Group's UK activities. In the absence of variable incentive schemes, there was little scope in practice to apply the provisions of the EBA Guidelines pertaining to variable remuneration. The Remuneration Policy incorporates the provisions of the EBA Guidelines in relation to the ongoing design, implementation and governance of remuneration.

Pillar 3 and Other Remuneration Disclosures

The Group publishes additional remuneration disclosures in the annual Group Pillar 3 Report. These disclosures provide further details in relation to the Group's decision making process and governance of remuneration, the link between pay and performance, the remuneration of those employees whose professional activities are considered to have a material impact on the Group's risk profile and the key components of the Group's remuneration structure. The Group's Pillar 3 Report is available on the Group website.

EBA remuneration benchmarking requirements require the Group to disclose remuneration data in respect of material risk takers and high earners (those earning above € 1 million) to the Central Bank of Ireland. The Group continued to comply with these reporting requirements during 2018. There were no employees whose total remuneration exceeded € 1 million during 2018.

The Group published its gender pay gap report for the first time in 2018 in relation to its UK based employees. The disclosures are available on the AIB (GB) website, www.aibgb.co.uk.

Identified Staff and Risk Oversight

The Group maintains a list of those staff whose professional activities are considered to have a material impact on the Group's risk profile ("Identified Staff"). The Group's process, including relevant criteria, for determining Identified Staff forms an addendum to the Remuneration Policy. The list of Identified Staff is reviewed annually by the Remuneration Committee. Further details in relation to the composition and remuneration of Identified Staff are set out in the remuneration disclosures of the Group's Pillar 3 Report.

A key principle of the Remuneration Policy is the promotion of a strong risk management culture and risk-taking which is aligned to the Group's Risk Appetite Statement. The Remuneration Committee is supported by the Chief Risk Officer in its assessment of the key risks that should be considered in the context of the Group's remuneration structure and future remuneration strategy. The Chief Risk Officer attends all meetings of the Remuneration Committee.

Reward Structure and Operation in 2018

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. 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 with the achievement of the Group's strategic objectives which include the repayment of the Irish State's residual investment in the Group.

During 2018, remuneration across the Group continued to be principally comprised of fixed pay elements encompassing base salary, allowances and employer pension contributions. Base salary endeavours to reflect the size and level of responsibilities attaching to individual roles while allowances are designed to reflect benefits and allowances generally available in the external market. The Group operates defined contribution pension schemes which followed the closure of all Group defined benefit schemes to future accrual on 31 December 2013. Further details in respect of the Group's fixed pay elements are provided in the table below.

Increases in base salary were performance based, determined by performance against each individual's objectives. Such increases were awarded following the annual pay review process, through promotion and, in exceptional cases, through out-of-course increases to retain business critical staff and key skills.

Performance based salary increases of between 0% and 3.25% were awarded to employees in April 2018 under the annual pay review process. These increases represented the final year of a two year agreement with employee representatives arising from the recommendations of the Workplace Relations Commission (WRC). Following the WRC's recommendations for 2019, the next annual pay review will take place in April 2019.

The remuneration of Executive Directors and members of the Leadership Team was determined and approved by the Remuneration Committee within the remuneration constraints set by the State.

There were no general short or long term variable incentive schemes or share incentive schemes in operation during 2018. The Group operates two local business variable commission schemes. These schemes are designed to protect the rights and interests of customers via customer centric performance criteria, the prevention of conflicts of interest and the assessment and mitigation of risks to the customer. The maximum amount payable to any individual per year is € 20,000.

Remuneration of Executive Directors

The remuneration of Executive Directors in 2018 continued to comprise of base salary, taxable benefits and pension contributions. Taxable benefits represent a non-pensionable cash allowance in lieu of company car and other contractual benefits while pension contributions represent agreed payments to a defined contribution scheme.

There were no changes to the remuneration of the Chief Executive Officer during 2018. 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 additional pension contribution of € 100,000 (20%) to a defined contribution scheme.

The base salary of the Chief Financial Officer increased from € 470,000 to € 500,000 in May 2018. In keeping with the remuneration restrictions however, this was offset by a decrease in his non-pensionable cash allowance from € 30,000 to zero. Pension contribution for the full year of € 98,000 (20%) was also made to the Group's defined contribution scheme.

There were no bonuses, shares or other incentive schemes paid or awarded to Executive Directors in 2018.
The remuneration of Executive Directors is reviewed annually by the Remuneration Committee on behalf of the Board.

Fixed Pay Elements

The principal fixed pay design elements are outlined below.

Pay Element	Rationale and alignment to Strategy	Design and Operation	Performance Assessment and Maximum Potential Value
Base Salary	To attract, motivate and retain the right calibre of individuals to support the Group's future success and growth.	Base salary is designed to reflect individual experience, contribution and the size and level of responsibilities attached to each role. Base salaries are typically reviewed annually as part of the annual pay review process with increases taking effect from 1st April. Base salaries of Executive Directors and members of the Leadership Team are reviewed annually by the Remuneration Committee on behalf of the Board.	Increases in base salary are performance based, following an assessment of each individual's achievements against their objectives. This includes an assessment against a specific risk objective included in each individual's performance management plan. Increases in base salary will generally reflect increases awarded to all employees under the annual performance based pay review. Increases may occasionally arise based on an assessment of an individual's contribution to role, market competitiveness and level of responsibilities. Base salaries of all employees, including Executive Directors, are managed in accordance with existing remuneration restrictions. The annual base salary for each Executive Director is set out in the Directors Remuneration Report.
Allowances	To provide a contribution to market aligned benefits and allowances generally available in the market.	Non-pensionable cash allowances are provided to eligible managers and executives according to their respective grades. Additional allowances include location allowances, payable in the UK to employees below management level.	Cash allowances for managers and executives range from €7,000 to €20,000 per annum. Allowances of up to €30,000 are payable to Executive Directors and members of the Leadership Team (subsequently known as the Executive Committee).
Pension	To enable employees plan for an appropriate standard of living in retirement.	Employees are entitled to participate in the Group's Defined Contribution Scheme with a monthly contribution based on a percentage of base salary. Executive Directors and members of the Leadership Team are also entitled to participate in the Defined Contribution Scheme. In the UK, employees may elect to receive cash in lieu of their pension contribution.	A standard contribution of 10% of base salary plus an additional matching contribution of up to 8%, depending on the age of the employee. Executive Directors and members of the Leadership Team (subsequently known as the Executive Committee) are entitled to an employer pension contribution of up to 20% of base salary.
Other Benefits	To provide affordable benefits in accordance with general market practice.	Benefits include medical insurance (UK employees only), income protection, death-in-service cover and free banking services. Additional benefits including, but not limited to, relocation costs, (tax advice, accommodation and flight allowances) may be provided in line with market practice. The Remuneration Committee retains the right to provide additional benefits subject to current remuneration restrictions.	The Group does not operate a company car scheme. Executive Directors and members of the Leadership Team (subsequently known as the Executive Committee) may occasionally avail of the use of a pool car and driver.

Directors' remuneration*

The following tables detail the total remuneration of the Directors in office during 2018 and 2017:

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	2018 Total € 000
Executive Directors						
Mark Bourke			490	10	98	598
Bernard Byrne			500	–	100	600
			990	10	198	1,198
Non-Executive Directors						
Simon Ball	95					95
Tom Foley[(2)]	88	34				122
Peter Hagan	95					95
Carolan Lennon	80					80
Brendan McDonagh	94					94
Helen Normoyle	75					75
Jim O'Hara	115					115
Richard Pym[(1(a))] *(Chairman)*	365					365
Catherine Woods *(Deputy Chairman)*	180					180
	1,187	34				1,221
Former Directors						
Declan Collier[(2)]		7				7
Anne Maher[(5)]	39					39
Other[(6)]						11
Total						1,278

[(1)]Fees paid to Non-Executive Directors in 2018 were as follows:

(a) Mr Richard Pym, Chairman, was paid a non-pensionable flat fee of € 365,000, which includes remuneration for all services as a Director;

(b) All other Non-Executive Directors were paid a basic, non-pensionable fee in respect of service as a Director of € 65,000 and additional non-pensionable remuneration in respect of other responsibilities, such as through the chairmanship or membership of Board Committees or the board of a subsidiary company or performing the role of Deputy Chairman, Senior Independent Non-Executive Director;

[(2)]Current or former Non-Executive Directors of AIB Group plc and Allied Irish Banks, p.l.c., as applicable, who also serve as Directors of AIB Group (UK) p.l.c. ("AIB UK") are separately paid a non-pensionable flat fee, which is independently agreed and paid by AIB UK, in respect of their service as a Director of that company. In that regard, Messrs Foley and Collier earned fees as quoted during 2018;

[(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 Chairman, Deputy Chairman and Non-Executive Directors are non-pensionable;

[(5)]Ms Anne Maher is a former Non-Executive Director of Allied Irish Banks, p.l.c. who has, since her resignation, continued as a Director of the Corporate Trustee of the AIB Irish Pension Scheme and of the AIB Defined Contribution Scheme, in respect of which she earned fees as quoted; and

[(6)]'Other' represents the payment of pensions to former Directors or their dependants granted on an ex-gratia basis and are fully provided for in the Statement of Financial Position.

*Forms an integral part of the audited financial statements

Directors' remuneration* *(continued)*

Remuneration	Directors' fees Parent and Irish subsidiary companies € 000	Directors' fees AIB Group (UK) p.l.c. € 000	Salary € 000	Annual taxable benefits € 000	Pension contribution € 000	2017 Total € 000
Executive Directors						
Mark Bourke			470	30	94	594
Bernard Byrne			500	–	100	600
			970	30	194	1,194
Non-Executive Directors						
Simon Ball	93					93
Tom Foley	90	38				128
Peter Hagan	95					95
Carolan Lennon	74					74
Brendan McDonagh	76					76
Helen Normoyle	75					75
Jim O'Hara	106					106
Richard Pym	365					365
(Chairman)						
Dr Michael Somers	110					110
(Deputy Chairman resigned 31 December 2017)						
Catherine Woods	150					150
	1,234	38				1,272
Former Directors						
Declan Collier		49				49
Anne Maher	45					45
Other						11
Total						1,377

*Forms an integral part of the audited financial statements

Governance and oversight –
Corporate Governance Remuneration statement

Directors' remuneration* *(continued)*

Interests in shares

The beneficial interests of the Directors and the Group Company Secretary in office at 31 December 2018, and of their spouses and minor children, in the Company's ordinary shares are as follows:

Ordinary shares	31 December 2018	1 January 2018**
Directors:		
Simon Ball	**5,000**	5,000
Mark Bourke	**2,000**	2,000
Bernard Byrne	**2,000**	2,000
Tom Foley	**2,501**	2,501
Peter Hagan	**8,000**	8,000
Carolan Lennon	**7,700**	2,000
Brendan McDonagh	**10,000**	10,000
Helen Normoyle	**2,000**	2,000
Jim O'Hara	**20,064**	–
Richard Pym	**2,000**	2,000
Catherine Woods	**24,000**	24,000
Group Company Secretary:		
Sarah McLaughlin	**2**	2

**or date of appointment, if later

The following table sets out the beneficial interests of the Directors and Executive Committee (Members of the Executive Committee as at 31 December 2018, excluding the Group Company Secretary) members of AIB as a group (including their spouses and minor children) at 31 December 2018:

Title of class	Identity of person or group	Number owned	Percent of class
Ordinary shares	Directors and Leadership Team members of AIB as a group	85,348	***

***The total ordinary shares in issue at 31 December 2018, was 2,714,381,237.

Share options

No share options were granted or exercised during 2018, and there were no options to subscribe for ordinary shares outstanding in favour of the Executive Directors or Group Company Secretary at 31 December 2018.

Performance shares

There were no conditional grants of awards of ordinary shares outstanding to Executive Directors or the Group Company Secretary at 31 December 2018.

Apart from the interests set out above, the Directors and Group Company Secretary in office at 31 December 2018, and their spouses and minor children, have no other interests in the shares of the Company.

There were no changes in the interests of the Directors and the Group Company Secretary shown above between 31 December 2018 and 28 February 2019.

The year end closing price of the Company's ordinary shares on the Main Market of the Irish Stock Exchange/Euronext Dublin was € 3.68 per share.

Service contracts

All Executive Directors have a service contract whereas all non-executive Directors have a letter of appointment.
In respect of Executive Directors, no service contract exists between the Company and any Director which provides for a notice period from AIB Group of greater than one year.
Non-Executive Directors are appointed for an initial term of three years. Terms of office for non-executive directors will not be extended beyond nine years in total unless the Board, on the recommendation of the Nomination and Corporate Governance Committee, concludes that such extension is necessary.

All Directors, should they choose to stand, are subject to annual re-election by shareholders.

*Forms an integral part of the audited financial statements

Governance and oversight – Viability statement

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code published in April 2016, the Directors have assessed the viability of the Group taking into account its current position and principal risks facing the Group over the next three years to 31 December 2021. The Directors concluded that three years was an appropriate period for the annual assessment given that this is the key period of focus within the Group's strategic and financial planning process.

The assessment considered the current financial performance, funding and liquidity management and capital management of the Group as set out in the Business review section on pages 39 to 60 and the governance and organisation framework through which the Group manages and seeks where possible to mitigate risk as described on pages 69 to 72. A robust assessment of the principal risks facing the Group including those that would threaten the business operations, governance and internal control systems was also undertaken and considered, the details of which are include on pages 62 to 68.

Key processes in place during the year which support the Director's assessment include:

- The Group's Material Risk Assessment Process, which seeks to ensure that all significant risks to which the Group is exposed have been identified and are being appropriately managed. New and emerging risks are also identified and mitigating actions are put in place. For example, the loss of senior management was recognised as a heightened risk during the year.
- The Group's Risk Appetite Framework represents an articulation of the amount of risk the Group is willing to accept in pursuit of its strategic objectives. The Group Risk function propose Risk Appetite metrics to the Board and ensure appropriate metrics are in place across all the Group's material risks. Stress testing is applied to risk appetite metrics so as to ensure that the Group's risk profile remains within appetite in the event of stress scenarios. The Group Risk Appetite Statement is reviewed by the Board on at least an annual basis.
- The Business and Financial Planning process drives delivery of the Group's strategy and is aligned to the Group's risk appetite. The Plan is reviewed annually and is subject to stress testing to reflect the potential impact of plausible yet severe scenarios which take account of the principal risks and uncertainties facing the Group. A key stress event considered in the reporting year was the risk of a disorderly Brexit outcome, and the impact this would have on the Group through its activities in the UK and Ireland. A number of other systemic and Group specific stresses were also evaluated, including a global economic slowdown combined with a disorderly Brexit (this formed the basis of the 'severe' scenario used in Group's assessment of its capital adequacy in the Internal Capital Adequacy Assessment Process), the impact of major operational disruption such as a cyber-attack and the disruption caused by the entry of a major FinTech financial services provider. Risk Management undertook a comprehensive second line assessment of the Plan which was presented to the Board for their evaluation. Key assumptions and challenges in the Plan which were reviewed included:
  - Key macro-economic and financial market assumptions.
  - Key market size growth assumptions and associated balance sheet growth assumptions.
  - Competitive environment in key markets;
  - Assumptions relating to NPE reduction through restructure and portfolio sales
  - Asset quality and ECL charge forecasts and sensitivities
  - Net Interest Margin (NIM) assumptions; and
  - Key assumptions relating to costs, including cost reduction initiatives.
- The ICAAP and quarterly stress testing. The ICAAP is the process undertaken annually through which the Group ensures it holds a level and quality of capital sufficient to support its strategic and financial objectives, and commensurate with the risks to which it is exposed.
  The ICAAP was reviewed and approved by the Board in the reporting period. As a result of this assessment, the Board was satisfied that the Group had an adequate level and quality of capital to support its strategic objectives, commensurate with the risks to which it was exposed.
  The Group also undertakes quarterly internal stress tests to review the adequacy of its capital position. The outcome of these stress tests continued to demonstrate the resilience of the Group's capital position throughout the reporting period.
- In addition, the Group was subject to the 2018 EU-wide stress test conducted by the European Banking Authority (EBA). While there was no 'pass fail, the Group's capital position in the adverse scenario comfortably demonstrated the resilience of its capital positon, and no capital action was required for the Group as a result of the EBA stress test.
- The Internal Liquidity Adequacy Assessment Process (ILAAP) identifies and evaluates AIB's liquidity risk, the Group's resources and requirements and sets out the risk management framework AIB employs to manage and control its liquidity risk. In approving the Liquidity Adequacy Statement (LAS – a part of the ILAAP) the Board concluded that the Group had comprehensively assessed its liquidity risks and satisfied itself that it maintains adequate liquidity resources (both in quantity and quality) to meet its obligations in both normal and stressed times in line with its expressed liquidity risk appetite.
- The Group's Recovery Plan sets out the arrangements and measures the Group could adopt to restore its long-term viability in the event of a significant stress. The Board reviewed the Recovery Plan in the reporting period and was satisfied that the Group has a range of available recovery options which could be deployed within one year and which could serve materially to improve the capital and/or liquidity position of the Group under a range of very severe macro-economic and Group-specific scenarios. During the year the Board also conducted a Fire Drill of the Group's recovery planning mechanisms which demonstrated the ability of the Group to respond to such an event.

On the basis of the above, the Directors believe taking into account the Group's current position, and subject to the identified principal risks, the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period of assessment.

Governance and oversight – Internal controls

Internal controls

Directors' Statement on Risk Management and Internal Controls

The Board of Directors is responsible for the effective management of risks and opportunities and for the system of internal controls in the Group. The Group operates a continuous risk management process which identifies and evaluates the key risks facing the Group and its subsidiaries. The system of internal controls is designed to ensure that there is thorough and regular evaluation of the nature and extent of risks and the ability of the Group to react accordingly, rather than to eliminate risk. This is done through a process of identification, measurement, monitoring and reporting, which provides reasonable, but not absolute, assurance against material misstatement, error, loss or fraud. This process includes an assessment of the effectiveness of internal controls, which was in place for the full year under review up to the date of approval of the accounts, and which accords with the Central Bank of Ireland's Corporate Governance requirements for Credit Institutions 2015 and the UK Corporate Governance Code.

Supporting this process, the Group's system of internal controls is based on the following:

Board governance and oversight

- The Board reviews the effectiveness of the system of internal controls on a continuous basis supported primarily by the Board Audit Committee ("BAC").
- The Board Risk Committee ("BRC") is responsible for fostering sound risk governance within the Group, ensures risks within the Group are appropriately identified, managed and controlled and ensures that the Group's strategy is informed by, and aligned with, the Group's Risk Appetite Statement ("RAS").
- The Board Audit Committee reviews various aspects of internal control, including the design and operating effectiveness of the financial reporting framework, the Group's statutory accounts and other published financial statements and information. It also ensures that no restrictions are placed on the scope of the statutory audit or the independence of the Internal Audit and Regulatory Compliance functions.
- The Chief Financial Officer ("CFO"), the Chief Risk Officer ("CRO") and the Group Head of Internal Audit are involved in all meetings of the BAC and BRC.
- AIB's remuneration policies are set and governed by the Remuneration Committee whose purpose, duties and membership are to ensure that remuneration policies and practices are consistent with and promote effective risk management.
- The Nomination and Corporate Governance Committee's responsibilities include, amongst others, recommending candidates to the Board for appointment as Directors and reviewing the size, structure and composition of the Board and the Board Committees.

Executive risk management and controls

- During 2018, the Leadership Team at executive level was in place with responsibility for establishing business strategy, risk appetite, enterprise risk management and control.
- The Group operates a 'three lines of defence' framework in the delineation of accountabilities for risk governance.
- During 2018, the Executive Risk Committee ("ERC") which was a sub-committee of the Leadership Team reviewed the effectiveness and application of the Group's risk frameworks and policies, risk profile, risk concentrations and adherence to Board approved risk appetite and limits.
- During 2018, the Group Asset and Liability Committee ("ALCo") which was a sub-committee of the Leadership Team and acts as the Group's strategic balance sheet management forum that combines a business decisioning and risk governance mandate.
- There is a centralised risk control function headed by the Chief Risk Officer who is responsible for ensuring that risks are identified, measured, monitored and reported on, and for reporting on risk mitigation actions.
- The Risk function is responsible for establishing and embedding risk management frameworks, ensuring that material risk policies are reviewed, and reporting on adherence to risk limits as set by the Board of Directors.
- During 2018 the Group's risk profile and Risk Appetite metrics were monitored on a monthly basis and exceptions are reported to the Executive Risk Committee and Board Risk Committee through the monthly CRO report. Material breaches of risk appetite are escalated to the Board and reported to the Central Bank of Ireland/SSM.
- The centralised Credit Risk function is headed by a Chief Credit Officer who reports to the CRO.
- There is an independent Compliance function which provides advisory services to the Group and which monitors and reports on conduct of business and financial crime compliance and forthcoming regulations across the Group, and on Management's focus on compliance matters.
- There is an independent Group Internal Audit function which is responsible for independently assessing the effectiveness of the Group's corporate governance, risk management and internal controls and which reports directly to the Chairman of the BAC.
- AIB employees who perform Pre-Approved Controlled functions and Controlled functions meet the required standards as outlined in AIB's Fitness and Probity programme.

For further information, on the Risk management framework of the Group, see pages 69 to 72 of this report.

Governance and oversight – Internal controls / Other governance information

Internal controls *(continued)*

Executive risk management and controls (continued)

In the event that material failings or weaknesses in the systems of risk management or internal control are identified, the relevant Leadership Team member 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 Leadership Team during the year, the Board is satisfied that the necessary actions to address any material failings or weaknesses identified through the operation of the Group's risk management and internal control framework have been taken, or are currently being undertaken.

Taking this and all other information into consideration as outlined above, the Board is satisfied that there has been an effective system of control in place throughout the year.

Other governance information

Relations with shareholders

The Group has a number of procedures in place to allow its shareholders and other stakeholders to stay informed about matters affecting their interests. In addition to this Annual Financial Report, which is available on the Group's website at www.aib.ie/investorrelations and sent in hard copy to those shareholders who request it, the following communication tools are used by the Group:

Shareholders' Report

The Shareholders' Report ('the Report') is a summary version of AIB's Annual Financial Report. The Report, which covers the Group's performance in the previous year, is available on the Group's website and sent in hard copy to those shareholders who request it. The Report does not form part of the Annual Financial Report and is for reference purposes only.

Website

The Group's website, contains, for the years since 2000, the Annual Financial Report, the Interim Report/Half-Yearly Financial Report, and the Annual Report on Form 20-F for relevant years. In accordance with the Transparency (Directive 2004/109/EC) (Amendment)(No.2) Regulations 2015, this and all future Annual and Half-Yearly Financial Reports will remain available to the public for at least ten years. For the period 2008 to 2013, the Annual Financial Report and the Annual Report on Form 20-F were combined. The Group's presentation to fund managers and analysts of annual and interim financial results are also available on the Group's website. None of the information on the Group's website is incorporated in, or otherwise forms part of, this Annual Financial Report.

Annual General Meeting ("AGM")

The AGM is an opportunity for shareholders to hear directly from the Board on the Group's performance and developments of interest for the year to date and, importantly, to ask questions.

All shareholders of the Company are invited to attend the AGM. Separate resolutions are proposed on each separate issue and voting is conducted by way of poll. The votes for, against and withheld on each resolution, including proxies lodged, are subsequently published on the Group's website. Proxy forms provide the option for shareholders to direct their proxies to withhold their vote. It is usual for all Directors to attend the AGM and to be available to meet shareholders before and after the meeting. The Chairmen of the Board Committees are available to answer questions about the Committee's activities.
A help desk facility is available to shareholders attending.
The Company's 2019 AGM is scheduled to be held on 24 April 2019, at the Ballsbridge Hotel, Ballsbridge, Dublin 4 and it is intended that Notice of the Meeting will be made available on the Group's website and sent in hard copy to those shareholders who request it, at least 20 working days before the meeting, in accordance with UK Code requirements.

Governance and oversight – Supervision and Regulation

Throughout 2018, the Group continued to work with its regulators, which include the European Central Bank ("ECB"), the Central Bank of Ireland ("CBI"), the Prudential Regulation Authority ("PRA"), the Financial Conduct Authority ("FCA") in the United Kingdom ("UK"), the New York State Department of Financial Services ("NYSDFS") and the Federal Reserve Bank of New York in the United States of America ("USA") and the Cayman Islands Monetary Authority to focus on ensuring compliance with existing regulatory requirements together with the management of regulatory change.

AIB Group plc is the holding company of Allied Irish Banks, p.l.c. (the principal operating company of AIB Group) and as such AIB Group plc is subject to consolidated supervision with respect to Allied Irish Banks, p.l.c. and other credit institutions and investment firms in the Group.

Current climate of regulatory change

The level of regulatory change remained high in 2018 as the regulatory landscape for the banking sector continued to evolve. 2018 represented a culmination of a decade of regulatory reform, with a large volume of significant regulatory initiatives becoming effective. There was an increased focus on regulatory supervision.

The Regulatory focus on Conduct and Culture will continue in 2019 and beyond, with anticipated regulatory developments in the form of the Senior Executive Accountability Regime, and review of the Fitness and Probity requirements.

The Group is committed to proactively identifying regulatory obligations arising in each of the Group's operating markets in Ireland, the UK and the USA and ensuring the timely implementation of regulatory change.

Throughout 2018, the Group continued cross-functional programmes to ensure the Group met its new regulatory requirements. In particular, the Group focused on the EU directives on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing the "4th AML Directive, the implementation of PSD2; the EU directive on security of network and information systems; the EU General Data Protection Regulation ("GDPR"); the ECB Regulation on the collection of granular credit and credit risk data (known as the AnaCredit Regulation) and the Credit Reporting Act 2013 with regard to the central credit register.

Although 2019 will see a move to regulators and supervisors assessing how recent key regulatory requirements have been implemented, the level of regulatory change is expected to still remain at high levels in 2019 and beyond.

United Kingdom

During 2018, AIB Group (UK) p.l.c. continued to prioritise compliance with its regulatory obligations in Great Britain and Northern Ireland and will remain focused on this throughout 2019.

Regulatory change horizon – UK

AIB Group (UK) p.l.c. is subject to the European Regulation described under "Current climate of regulatory change" above and works closely with AIB Group to ensure the requirements are implemented compliantly taking into consideration UK regulatory guidance. The approach to implementation of European Regulation will be reviewed in light of Brexit and any impact which Brexit might have on the applicability of such regulation to AIB Group (UK) p.l.c. and to the AIB Group. However, the current stance of the UK Government is to maintain regulatory alignment with EU in respect of financial services.

As further regulatory reforms continue to emerge from the regulators, AIB Group (UK) p.l.c. will continue to focus on the management of regulatory change and its compliance obligations.

In addition, AIB Group (UK) p.l.c. will focus on the implementation of the retail banking market investigation order (2017) (the "Order"). The Order will provide for remedies to market-wide issues identified as part of the Competition and Markets Authority's Retail Banking Market Investigation into the Personal Current Accounts and SME Banking markets in the UK.

There will also be a focus on regulatory interventions to limit the cost of credit, particularly unauthorised overdrafts and anti-fraud measures such as 'Confirmation of Payee'. In addition, UK Regulators are placing a focus on enhancing operational resilience in the UK financial services sector and requiring banks to make plans to take account of climate change.

United States

Compliance with federal and state banking laws and regulations

During 2018, AIB's state-licensed branch in New York continued to prioritise compliance with its regulatory obligations in the USA and will remain focused on this throughout 2019. In particular, it will continue to monitor ongoing business activities with regard to the Dodd Frank Act 2010. In addition, particular focus will be given to the new Transaction Monitoring and Filtering Programme Regulation and new Cybersecurity Regulation from the NYSDFS.

Cayman Islands

During 2018, Allied Irish Banks, p.l.c. formally surrendered the Bank and Trust licences of its Cayman Branch. These were confirmed as having been cancelled with effect from 20 December 2018 by the Cayman Islands Monetary Authority.

Financial statements

Directors' Responsibility Statement

The following statement which should be read in conjunction with the statement of Auditor's responsibilities set out with their Audit Report, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditors in relation to the financial statements.

The Directors are responsible for preparing the Annual Financial Report and the Group and Company financial statements, in accordance with applicable law and regulations.

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

In preparing both the Group and Company financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2014. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and Company and to prevent and detect fraud and other irregularities. Under applicable law and corporate governance requirements, the Directors are also responsible for preparing the Directors' Report and the reports relating to the Directors' remuneration and corporate governance that comply with that law and the relevant listing rules of the Irish Stock Exchange/Euronext Dublin and the UK Listing Authorities.

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

Each of the Directors whose names and functions are listed on pages 34 to 35 confirm, to the best of their knowledge and belief, that:

- they have complied with the above requirements in preparing the financial statements;
- the Group financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the state of the Group's affairs as at 31 December 2018 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 2018;
- the Directors' report, Business review and Risk management sections, contained in the Annual Financial Report provide a fair review of the development and performance of the business and the financial position of the Group, together with a description of the principal risks and uncertainties faced by the Group; and
- the Annual Financial Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's and the company's position and performance, business model and strategy.

For and on behalf of the Board

Richard Pym
Chairman

Bernard Byrne
Chief Executive Officer

28 February 2019

Independent Auditor's Report

Independent auditor's report to the members of AIB Group plc

Report on the audit of the financial statements

Opinion on the financial statements of AIB Group plc (the 'Company')

In our opinion the Group and Company financial statements:
- give a true and fair view of the assets, liabilities and financial position of the Group and Company as at 31 December 2018 and of the profit of the Group for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014 and as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements we have audited comprise:

The Group financial statements:
- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated Statement of Financial Position;
- the Consolidated Statement of Cash Flows;
- the Consolidated Statement of Changes in Equity; and
- the related notes 1 to 61, including a summary of significant accounting policies as set out in note 1.

The Company financial statements:
- the Company Statement of Financial Position;
- the Company Statement of Cash Flows;
- the Company Statement of Changes in Equity; and
- the related notes a to l, including a summary of significant accounting policies as set out in note a.

The relevant financial reporting framework that has been applied in the preparation of the Group and Company financial statements is the Companies Act 2014 and International Financial Reporting Standards ("IFRS") as adopted by the European Union ('the relevant financial reporting framework').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law. Our responsibilities under those standards are described below in the *"Auditor's responsibilities for the audit of the financial statements"* section of our report.

We are independent of the Group and Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: – Expected credit losses on loans and advances to customers; – Deferred tax asset; – Defined benefit obligations; and – Provisions for customer redress and related matters. 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 € 66 million which is approximately 5% of Profit Before Tax ("PBT"); and – the Company to be € 63 million which is 0.5% of total equity of the Company.

Annual Review | Business Review | Risk Management | Governance and Oversight | Financial Statements | General Information

Independent Auditor's Report

Scoping	We focused the scope of our Group audit primarily on the audit work in five 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 93% of the Group's total assets and 97% of the Group's total operating income.
Significant changes in our approach	On 1 January 2018, the Group transitioned to financial instruments accounting standard IFRS 9 which replaced IAS 39. Under the new impairment model, losses on financial assets which are classified at amortised cost are recognised on an expected credit loss basis. As a result we have identified a new key audit matter, 'Expected credit losses on loans and advances to customers'.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which ISAs (Ireland) require us to report to you whether we have anything material to report, add or draw attention to:

- the Directors' confirmation in the annual report on page 211 that they have carried out a robust assessment of the principal risks facing the Group and the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 62 to 68 to the annual report that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' statement on page 168 in the annual report about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 6.8.3(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation on page 211 in the annual report as to how they have assessed the prospects of the Group and the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group and the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit 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	On 1 January 2018, the Group transitioned to financial instruments accounting standard IFRS 9 which replaced IAS 39. Under the new impairment model, losses on assets which are classified at amortised cost are recognised on an expected credit loss basis. Expected credit losses ("ECL") are required to incorporate forward looking information, reflecting Management's view of potential future economic environments. The complexity involved in the calculations required Management to develop new methodologies involving the use of significant judgements. In order to meet the requirements of the new standard, significant changes have also been made to systems, processes and controls with effect from 1 January 2018. Management have availed of the option within IFRS 9 to apply the standard prospectively. Information regarding the transitional effect of IFRS 9 is disclosed in note 3, including the impact on shareholders' equity at 1 January 2018. Expected credit loss allowances on loans and advances to customers was € 2,039 million at 31 December 2018 (€ 3,616 million at 1 January 2018).

Measurement of the ECL allowance on loans and advances to customers is a key audit matter as the determination of assumptions for ECLs is highly subjective due to the level of judgement applied by Management. The most significant judgements include:

- Determining the criteria for a significant increase in credit risk, ("SICR") and for being classified as credit impaired;
- Accounting interpretations and assumptions used to build the models that calculate the ECL;
- The determination of key assumptions, including collateral valuation and cashflow timings, used in discounted cash flows ("DCFs") of individually assessed loans. DCFs are the most significant input to the ECL calculation for Stage 3 loans;
- The completeness and accuracy of data used to calculate the ECL;
- The completeness and valuation of post-model adjustments determined by Management for certain higher risk portfolios and to address known model limitations; and
- Establishing the number and relative weightings for forward looking macroeconomic scenarios applied in measuring the ECL. This is highly subjective given that such assumptions are subject to significant uncertainty related to future economic outcomes, including the impact of Brexit. This results in a wide range of possible outcomes.

Please also refer to page 186 (Audit Committee Report), page 252 (Accounting Policy – Impairment of financial assets), Note 2 – Critical accounting judgements and estimates, Note 3 – Transition to IFRS 9, Note 15 – Net credit impairment writeback and Note 27 – Loss allowance on financial assets.

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

We tested key controls supporting the calculation of ECLs on loan and advances to customers focusing on:

- model development, validation and approval to ensure compliance with IFRS 9 requirements;
- review and approval of key assumptions, judgements and macroeconomic forward looking information used in the models;
- the integrity of data used as input to the models including the transfer of data between source systems and the ECL models;
- the application of SICR criteria and default definition 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 and observation of Board Risk Committee and Credit Committee meetings.

We evaluated IT system controls including assessing data inputs and new controls which were implemented for IFRS 9. 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 assessed judgements and assumptions supporting the ECL requirements of the standard. 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 including assessing Management's experts. We challenged the macroeconomic scenarios chosen and the weighting applied to capture non-linear losses. This included benchmarking the economic data used to recognised external data sources. We also considered the impact of key uncertainties, including Brexit.

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. 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 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.

Deferred tax asset

Key audit matter description

The key audit matter relates to the incorrect recognition or measurement of the deferred tax asset. Deferred tax assets of € 2,808 million (2017: € 2,907 million) are recognised for unutilised tax losses to the extent that it is probable that there will be sufficient future taxable profits against which the losses can be used.

The assessment of the conditions for the recognition of a deferred tax asset is a critical Management judgement, given the inherent uncertainties associated with projecting profitability over a long time period. This is highly subjective given the significant uncertainty related to future economic outcomes, including the impact of Brexit.

Please refer to page 186 (Audit Committee Report), page 244 (Accounting Policy – Income tax, including deferred income tax), Note 2 – Critical accounting judgements and estimates and Note 33 – Deferred taxation.

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

We have evaluated the design and 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 compared to actual results.

We reviewed the model used by Management to assess the likelihood of future profitability and challenged Management's assessment of a range of positive and negative evidence for the projection of long-term future profitability.

We compared Management's assumptions to industry norms and other economic metrics where possible. We reviewed Management's analysis of the "more likely than not" test and assessed the adequacy of the financial statement disclosures.

Based on the evidence obtained, we found that the assumptions used by Management in the recognition of the deferred tax asset is within a range we consider to be reasonable.

Defined benefit obligations

Key audit matter description

The key audit matter is that the recognition and measurement of defined benefit obligations of € 5,323 million (2017: € 5,694 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 186 (Audit Committee Report), page 242 (Accounting Policy – Employee benefits), and Note 2 – Critical accounting judgements and estimates and Note 34 – Retirement benefits.

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

We evaluated the design of controls over the completeness and accuracy of data extracted and supplied to the Group's actuary, which is used in the valuation of the Group's defined benefit obligations. We also evaluated the design and implementation of the controls for determining the actuarial assumptions and the approval of those assumptions by Management.

We have utilised Deloitte actuarial specialists as part of our team to assist us in challenging the appropriateness of actuarial assumptions with particular focus on discount rates, pension in payment increases and inflation rates.

Our work included inquiries with Management and their actuaries to understand the processes and assumptions used in calculating the defined benefit obligations. We benchmarked economic and demographic assumptions against market data and assessed Management adjustments to market rates for Company and scheme specific information. For scheme specific assumptions we considered the scheme rules, historic practice and other information relevant to the selection of the assumption.

We evaluated and assessed the adequacy of disclosures made in the financial statements, including disclosures of the assumptions and sensitivity of the defined benefit obligation to changes in the underlying assumptions.

Based on the evidence obtained, we concluded that assumptions used by Management in the actuarial valuations for defined benefit obligations are within a range we consider to be reasonable.

Provisions for customer redress and related matters

Key audit matter description

The key audit matter relates to the recognition, measurement and disclosure of provisions for customer redress and related matters (included within Note 40 – Provisions for liabilities and commitments of € 57 million (2017: € 104 million)) are inappropriate for allegations of mis-selling of financial products, allegations of overcharging and breach of contract and/or regulation including provisions for Tracker Mortgage Examinations.

The measurement of provisions for these issues is highly judgemental and involves the use of several Management assumptions including the identification of relevant impacted customers and related redress costs. There is also a risk that these known and emerging issues may not be appropriately disclosed in the financial statements.

Please refer to page 186 (Audit Committee Report), page 256 (Accounting Policy – Non-credit risk provisions), Note 2 – Critical accounting judgements and estimates, Note 40 - Provisions for liabilities and commitments, and Note 48 – Memorandum items: contingent liabilities and commitments, and contingent assets.

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

We have evaluated the design and implementation and tested the operating effectiveness of the Group's controls over the identification, measurement and the disclosure of the provisions. We also assessed Management review controls and governance controls including attendance at and observation of Board Risk Committee.

We challenged the assumptions regarding the interpretation of contract terms, the numbers of customers affected and the costs arising from the issues in the calculation of the provisions. We reviewed the correspondence with regulators and legal advice obtained. We also considered regulatory developments and Management's interactions with regulators including the status of the enforcement process.

Given the inherent uncertainty in the calculation of conduct provisions and their judgemental nature, we evaluated the 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, significant uncertainties that exist in respect of the provisions and the sensitivity of the provisions to changes in the underlying assumptions.

Based on the evidence obtained, we found that the assumptions used by Management in measurement of provisions for customer redress and related matters are within a range we consider to be reasonable.

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

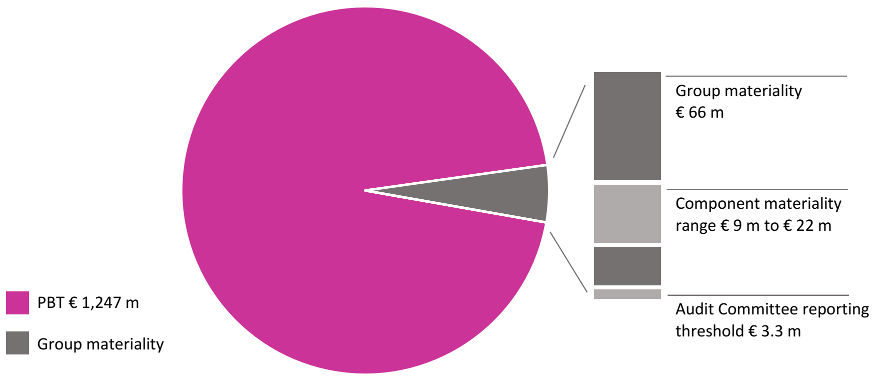
Independent Auditor's Report

Our application of materiality

We define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be € 66 million which is approximately 5% of PBT. We have considered PBT to be the critical component for determining materiality given the continued profitability within the Group. PBT is recognised as one of the critical components within the financial statements relevant to members of the Group in assessing financial performance. 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 € 63 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 € 3.3 million, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the Board Audit Committee on material disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

We determined the scope of our Group audit by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group engagement team, or by auditors within Deloitte network firms operating under our instruction ('component auditors'). Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

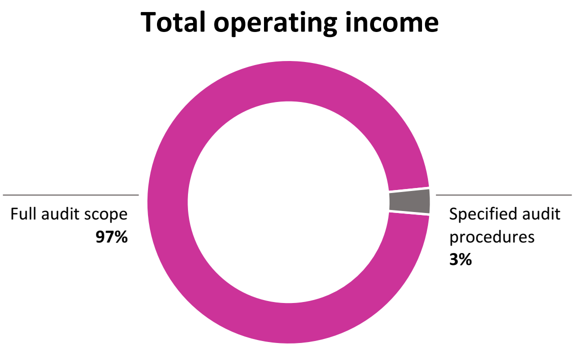
Based on that assessment, we focused our Group audit work in AIB Group plc and the four legal entities as disclosed in Note 49 to the consolidated financial statements, all of which were subject to individual statutory audits, whilst the other legal entities were subject to specified audit procedures, 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 93% of the Group's total assets and 97% of the Group's total operating income. In addition, audits will be performed for statutory purposes for all legal entities.

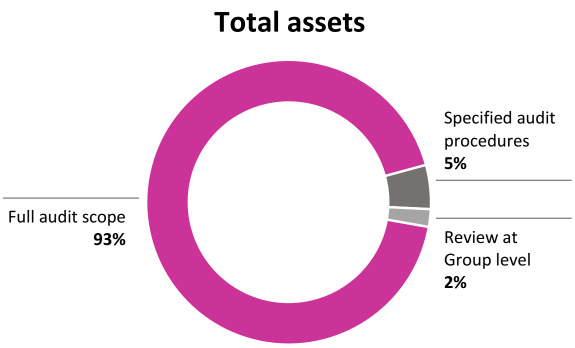
We also tested the consolidation process and carried out analytical procedures to assess there were no additional significant risks of material misstatement arising from the aggregated financial information of the remaining entities not subject to audit or specified audit procedures.

The Group audit team sent component auditors detailed instructions on audit procedures to be undertaken and the information to be reported back to the Group audit team. Regular contact was maintained throughout the course of the audit with component auditors which included holding Group planning meetings, maintaining communications on the status of the audits and continuing with a programme of planned visits designed so that the Group audit team met each significant component audit team during the year.

An overview of the scope of our audit *(continued)*

The levels of coverage of key financial aspects of the Group by type of audit procedures as set out below:





Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Financial Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information.
If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

– Fair, balanced and understandable – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and the Company's position and performance, business model and strategy is materially inconsistent with our knowledge obtained in the audit; or

– Board Audit Committee reporting – the section describing the work of the Board Audit Committee does not appropriately address matters communicated by us to the Board Audit Committee; or

– Directors' statement of compliance with the UK Corporate Governance Code and the Irish Corporate Governance Annex – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code and the Irish Corporate Governance Annex containing provisions specified for review by the auditor in accordance with Listing Rule 6.8.3(7) and Listing Rule 6.8.3(9) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code or the Irish Corporate Governance Annex.

Independent Auditor’s Report

Responsibilities of Directors

As explained more fully in the Directors’ Responsibility Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (Ireland), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Company’s internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

– Conclude on the appropriateness of the Directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor’s report. However, future events or conditions may cause the Company (or where relevant, the Group) to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Group to express an opinion on the consolidated financial statements. The Group auditor is responsible for the direction, supervision and performance of the Group audit. The Group auditor remains solely responsible for the audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

For listed entities and public interest entities, the auditor also provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence, including the Ethical Standard for Auditors (Ireland) 2016, and communicates with them all relationships and other matters that may be reasonably be thought to bear on the auditor’s independence, and where applicable, related safeguards.

Where the auditor is required to report on key audit matters, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore, the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

This report is made solely to the Company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, we report that:

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited.
- The Company Statement of Financial Position is in agreement with the accounting records.
- In our opinion the information given in those parts of the Directors' report as specified for our review is consistent with the financial statements and the Directors' report has been prepared in accordance with the Companies Act 2014.

Corporate Governance Statement

We report, in relation to information given in the Corporate Governance Statement on pages 174 to 185 that:

- In our opinion the information given in the Corporate Governance Statement pursuant to subsections 2(c) and (d) of section 1373 Companies Act 2014 is consistent with the Company's statutory financial statements in respect of the financial year concerned and such information has been prepared in accordance with section 1373 of the Companies Act 2014;
- Based on our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in this information;
- In our opinion, based on the work undertaken during the course of the audit, the Corporate Governance Statement contains the information required by Regulation 6(2) of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 (as amended); and
- In our opinion, based on the work undertaken during the course of the audit, the information required pursuant to section 1373(2)(a),(b),(e) and (f) of the Companies Act 2014 is contained in the Corporate Governance Statement.

Independent Auditor's Report

Matters on which we are required to report by exception

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

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of Directors' remuneration and transactions specified by law are not made.

The Listing Rules of the Irish Stock Exchange/Euronext Dublin require us to review six specified elements of disclosures in the report to shareholders by the Board of Directors' Remuneration Committee. We have nothing to report in this regard.

Other matters which we are required to address

Following the recommendation of the Board Audit Committee of Allied Irish Banks, p.l.c., we were appointed at the Annual General`Meeting on 20 June 2013 to audit the financial statements for the financial year ended 31 December 2013. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years, covering the years ending 2013 to 2018.

Following the corporate restructure, as disclosed in Note 46 to the financial statements, we were appointed on 21 September 2017 to audit the financial statements of AIB Group plc for the financial year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 2 years, covering the years ending 2017 and 2018.

The non-audit services prohibited by IAASA's Ethical Standard were not provided and we remained independent of the Company in conducting the audit.

Our audit opinion is consistent with the additional report to the Board Audit Committee that we are required to provide in accordance with ISA (Ireland) 260.

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

28 February 2019

Deloitte.

Notes: An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the Directors but no control procedures can provide absolute assurance in this area.

Legislation in Ireland governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Consolidated income statement

for the financial year ended 31 December 2018

	Notes	2018 € m	2017 € m
Continuing operations			
Interest income calculated using the effective interest method	5	**2,289**	2,414
Other interest income and similar income	5	**77**	67
Interest and similar income	5	**2,366**	2,481
Interest expense	6	**(266)**	(305)
Net interest income		**2,100**	2,176
Dividend income	7	**26**	28
Fee and commission income	8	**498**	436
Fee and commission expense	8	**(41)**	(45)
Net trading income	9	**5**	97
Net gain on other financial assets measured at FVTPL	10	**146**	–
Net gain on derecognition of financial assets measured at amortised cost	11	**121**	32
Other operating income	12	**19**	277
Other income		**774**	825
Total operating income		**2,874**	3,001
Administrative expenses	13	**(1,661)**	(1,694)
Impairment and amortisation of intangible assets	31	**(110)**	(83)
Impairment and depreciation of property, plant and equipment	32	**(52)**	(58)
Total operating expenses		**(1,823)**	(1,835)
Operating profit before impairment losses and provisions		**1,051**	1,166
Net credit impairment writeback	15	**204**	113
Writeback of provisions for liabilities and commitments	40	**–**	8
Operating profit		**1,255**	1,287
Associated undertakings and joint venture	29	**12**	19
Profit on disposal of property	16	**2**	–
Loss on disposal of business	17	**(22)**	–
Profit before taxation from continuing operations		**1,247**	1,306
Income tax charge from continuing operations	19	**(155)**	(192)
Profit after taxation from continuing operations attributable to owners of the parent		**1,092**	1,114
Basic earnings per share			
Continuing operations	20(a)	**38.9c**	39.7c
Diluted earnings per share			
Continuing operations	20(b)	**38.9c**	39.7c

Consolidated statement of comprehensive income

for the financial year ended 31 December 2018

	Notes	2018 € m	2017 € m
Profit for the year		**1,092**	1,114
Other comprehensive income – continuing operations			
Items that will not be reclassified subsequently to profit or loss:			
Net actuarial gains in retirement benefit schemes, net of tax	19	**26**	24
Net change in fair value of equity investments at FVOCI, net of tax	19	**2**	–
Total items that will not be reclassified subsequently to profit or loss		**28**	24
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Net change in foreign currency translation reserves	19	**10**	(53)
Net change in cash flow hedges, net of tax	19	**28**	(203)
Net change in fair value of available for sale securities, net of tax	19	**–**	(132)
Net change in fair value of investment debt securities at FVOCI, net of tax	19	**(291)**	–
Total items that will be reclassified subsequently to profit or loss when specific conditions are met		**(253)**	(388)
Other comprehensive income for the year, net of tax from continuing operations		**(225)**	(364)
Total comprehensive income for the year from continuing operations attributable to owners of the parent		**867**	750

Consolidated statement of financial position

as at 31 December 2018

	Notes	**31 December 2018 € m**	1 January 2018[1] € m	31 December 2017 € m
Assets				
Cash and balances at central banks		**6,516**	6,364	6,364
Items in course of collection		**73**	103	103
Disposal groups and non-current assets held for sale	22	**10**	8	8
Trading portfolio financial assets	23	**–**	33	33
Derivative financial instruments	24	**900**	1,156	1,156
Loans and advances to banks	25	**1,443**	1,312	1,313
Loans and advances to customers	26	**60,868**	59,722	59,993
Investment securities	28	**16,861**	16,321	16,321
Interests in associated undertakings	29	**90**	80	80
Intangible assets	31	**682**	569	569
Property, plant and equipment	32	**330**	321	321
Other assets	30	**356**	430	418
Current taxation		**10**	5	5
Deferred tax assets	33	**2,702**	2,787	2,736
Prepayments and accrued income		**454**	459	459
Retirement benefit assets	34	**241**	183	183
Total assets		**91,536**	89,853	90,062
Liabilities				
Deposits by central banks and banks	35	**844**	3,640	3,640
Customer accounts	36	**67,699**	64,572	64,572
Trading portfolio financial liabilities	37	**–**	30	30
Derivative financial instruments	24	**934**	1,170	1,170
Debt securities in issue	38	**5,745**	4,590	4,590
Current taxation		**74**	68	68
Deferred tax liabilities	33	**107**	109	97
Retirement benefit liabilities	34	**49**	87	87
Other liabilities	39	**887**	824	824
Accruals and deferred income		**325**	348	348
Provisions for liabilities and commitments	40	**219**	267	231
Subordinated liabilities and other capital instruments	41	**795**	793	793
Total liabilities		**77,678**	76,498	76,450
Equity				
Share capital	42	**1,696**	1,697	1,697
Reserves		**11,668**	11,164	11,421
Total shareholders' equity		**13,364**	12,861	13,118
Other equity interests	44	**494**	494	494
Total equity		**13,858**	13,355	13,612
Total liabilities and equity		**91,536**	89,853	90,062

[1]The 'Statement of financial position' as at 1 January 2018 reflects the adoption of IFRS 9 and IFRS 15 which apply with effect from 1 January 2018. See 'Basis of preparation' in note 1.

Richard Pym	**Bernard Byrne**	**Mark Bourke**	**Sarah McLaughlin**
Chairman	Chief Executive Officer	Chief Financial Officer	Group Company Secretary

28 February 2019

Consolidated statement of cash flows

for the financial year ended 31 December 2018

	Notes	2018 € m	2017 € m
Cash flows from operating activities			
Profit before taxation for the year from continuing operations		**1,247**	1,306
Adjustments for:			
– Non-cash and other items	53	**(4)**	(5)
– Change in operating assets	53	**(740)**	1,963
– Change in operating liabilities	53	**1,306**	(4,693)
– Taxation (paid)/refund		**(44)**	19
Net cash inflow/(outflow) from operating activities		**1,765**	(1,410)
Cash flows from investing activities			
Purchase of investment securities	28	**(3,276)**	(1,419)
Proceeds from sales and maturity of investment securities		**2,392**	3,499
Additions to property, plant and equipment	32	**(65)**	(26)
Disposal of property, plant and equipment		**8**	9
Additions to intangible assets	31	**(223)**	(261)
Investments in associated undertaking and joint venture		**(10)**	(81)
Disposal of associated undertaking/joint venture		**2**	76
Dividends/distribution received from associated undertakings and joint venture	29	**10**	9
Net cash (outflow)/inflow from investing activities		**(1,162)**	1,806
Cash flows from financing activities			
Dividends paid on ordinary shares	21	**(326)**	(250)
Distributions paid on other equity interests	21	**(37)**	(37)
Interest paid on subordinated liabilities and other capital instruments		**(31)**	(31)
Net cash outflow from financing activities		**(394)**	(318)
Change in cash and cash equivalents		**209**	78
Opening cash and cash equivalents		**7,058**	7,164
Effect of exchange translation adjustments		**(21)**	(184)
Closing cash and cash equivalents	53	**7,246**	7,058

Consolidated statement of changes in equity

for the financial year ended 31 December 2018

	Attributable to equity holders of parent											
	Share capital € m	Other equity interests € m	Capital reserves € m	Merger reserves € m	Capital redemp–tion reserves € m	Reval–uation reserves € m	Available for sale securities reserves € m	Invest–ment securities reserves € m	Cash flow hedging reserves € m	Revenue reserves € m	Foreign currency translation reserves € m	Total € m
At 31 December 2017	1,697	494	1,133	(3,622)	14	14	981	–	257	13,249	(605)	13,612
Impact of adopting IFRS 9 at 1 January 2018 (note 3)	–	–	–	–	–	–	(981)	965	–	(251)	–	(267)
Impact of adopting IFRS 15 at 1 January 2018 (note 1)	–	–	–	–	–	–	–	–	–	10	–	10
Restated balance at 1 January 2018	1,697	494	1,133	(3,622)	14	14	–	965	257	13,008	(605)	13,355
Total comprehensive income for the year												
Profit for the year	–	–	–	–	–	–	–	–	–	1,092	–	1,092
Other comprehensive income *(note 19)*	–	–	–	–	–	–	–	(289)	28	26	10	(225)
Total comprehensive income for the year	–	–	–	–	–	–	–	(289)	28	1,118	10	867
Transactions with owners, recorded directly in equity												
Contributions by and distributions to owners of the Group												
Dividends paid on ordinary shares *(note 21)*	–	–	–	–	–	–	–	–	–	(326)	–	(326)
Distributions on other equity interests *(note 21)*	–	–	–	–	–	–	–	–	–	(37)	–	(37)
Other movements *(note 42)*	(1)	–	–	–	–	–	–	–	–	–	–	(1)
Total contributions by and distributions to owners of the Group	(1)	–	–	–	–	–	–	–	–	(363)	–	(364)
At 31 December 2018	1,696	494	1,133	(3,622)	14	14	–	676	285	13,763	(595)	13,858

Consolidated statement of changes in equity

for the financial year ended 31 December 2017

	Attributable to equity holders of parent											
	Share capital € m	Share premium € m	Other equity interests € m	Capital reserves € m	Merger reserve € m	Capital redemption reserves € m	Revaluation reserves € m	Available for sale securities reserves € m	Cash flow hedging reserves € m	Revenue reserves € m	Foreign currency translation reserves € m	Total € m
At 1 January 2017*	1,696	1,386	494	1,199	–	14	15	1,113	460	7,323	(552)	13,148
Total comprehensive income for the year												
Profit for the year	–	–	–	–	–	–	–	–	–	1,114	–	1,114
Other comprehensive income	–	–	–	–	–	–	–	(132)	(203)	24	(53)	(364)
Total comprehensive income for the year	–	–	–	–	–	–	–	(132)	(203)	1,138	(53)	750
Transactions with owners, recorded directly in equity												
Contributions by and distributions to owners of the Group:												
Capital contributions *(note 45)*	–	–	–	(66)	–	–	–	–	–	66	–	–
Dividends paid on ordinary shares *(note 21)*	–	–	–	–	–	–	–	–	–	(250)	–	(250)
Distributions on other equity interests *(note 21)*	–	–	–	–	–	–	–	–	–	(37)	–	(37)
Other movements	–	–	–	–	–	–	(1)	–	–	1	–	–
Impact of corporate restructuring (note 46)												
Cancellation of share capital and share premium *(note 42)*	(1,696)	(1,386)	–	–	–	–	–	–	–	–	–	(3,082)
Issue of share capital by AIB Group plc	6,705	–	–	–	–	–	–	–	–	–	–	6,705
Capital reduction *(note 46)*	(5,008)	–	–	–	–	–	–	–	–	5,008	–	–
Merger reserve *(note 45)*	–	–	–	–	(3,622)	–	–	–	–	–	–	(3,622)
At 31 December 2017	1,697	–	494	1,133	(3,622)	14	14	981	257	13,249	(605)	13,612

*As reported in the 2016 consolidated financial statements of Allied Irish Banks, p.l.c.

Notes to the consolidated financial statements

Notes to the consolidated financial statements

1 Accounting policies

Index

1 Accounting policies *(continued)*

The significant accounting policies that the Group applied in the preparation of the financial statements are set out in this section.

(a) Reporting entity

AIB Group plc ('the parent company' or 'the Company') is a company domiciled in Ireland. The address of the Company's registered office is Bankcentre, Ballsbridge, Dublin 4, Ireland. AIB Group plc is registered under the Companies Act 2014 as a public limited company under the company number 594283 and is the holding company of the Group.

The consolidated financial statements for the year ended 31 December 2018 include the financial statements of AIB Group plc and its subsidiary undertakings, collectively referred to as 'AIB Group' or 'the Group', where appropriate, including certain special purpose entities and the Group's interest in associates using the equity method of accounting and are prepared to the end of the financial period. The Group is and has been primarily involved in retail and corporate banking.

AIB Group plc was incorporated on 8 December 2016. At 31 December 2016, the Company had no subsidiaries and was not the parent company of the Group. On 8 December 2017, Allied Irish Banks, p.l.c. was acquired by AIB Group plc and as a result, Allied Irish Banks, p.l.c. became a 100% subsidiary of AIB Group plc. The comparative consolidated financial statements incorporated the acquired entity's (Allied Irish Banks, p.l.c.) results as if both entities, AIB Group plc and Allied Irish Banks, p.l.c. had always been combined and reflect both entities full year's results for 2017. See basis of consolidation below. Further details are disclosed in note 46 'Corporate restructuring'.

(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 2018. The consolidated financial statements also comply with those parts of the Companies Act 2014 and the European Union (Credit Institutions: Financial Statements) Regulations 2015 applicable to companies reporting under IFRS, and the Asset Covered Securities Acts 2001 and 2007. The accounting policies have been consistently applied by Group entities and are consistent with the previous year, apart from policies adopted as a result of the implementation of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* which are outlined below.

(c) Basis of preparation

Functional and presentation currency

The financial statements are presented in euro, which is the functional currency of the parent company and a significant number of its subsidiaries, rounded to the nearest million.

Basis of measurement

The financial statements have been prepared under the historical cost basis, with the exception of the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit or loss, certain hedged financial assets and financial liabilities and investment securities at FVOCI.

The financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and the holding company's separate statements of financial position, the consolidated and the holding company's separate statements of cash flows, and the consolidated and the holding company's separate statements of changes in equity together with the related notes. These notes also include financial instrument related disclosures which are required by IFRS 7 and revised IAS 1, contained in the 'Financial review' and the 'Risk management' sections of this Annual Financial Report. The relevant information on those pages is identified as forming an integral part of the audited financial statements.

Use of judgements and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management's judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. The estimates that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in the areas of expected credit losses on financial instruments; the recoverability of deferred tax; determination of the fair value of certain financial assets and financial liabilities; retirement benefit obligations; and provisions for liabilities and commitments. A description of these judgements and estimates is set out in 'Critical accounting judgements and estimates' on pages 262 to 266.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(c) Basis of preparation *(continued)*

Going concern

The financial statements for the financial year ended 31 December 2018 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting the Group, that it has the ability to continue in business for the period of assessment. The period of assessment used by the Directors is twelve months from the date of approval of these annual financial statements.

First time adoption of new accounting standards

On 1 January 2018, the Group implemented the requirements of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* for the first time. As permitted by IFRS 9 and IFRS 15, the Group did not restate the prior year on their initial application. Accordingly, comparative data for 2017 has been prepared under the previous standards 'IAS 18 *Revenue'* and 'IAS 39 *Financial Instruments: Recognition and Measurement'*.

IFRS 9 *Financial Instruments*

The effective date for IFRS 9 *Financial Instruments* was 1 January 2018 and was adopted by the Group on that date. The Group is not restating prior periods as allowed in IFRS 9, paragraph 7.2.15. However, as required by this paragraph, if prior periods are not restated, any difference arising between IAS 39 carrying amounts and IFRS 9 carrying amounts at 1 January 2018 are recognised in opening retained earnings (or in other comprehensive income, as applicable).

The Group applied IFRS 9 as issued in 2014 at 1 January 2018 and early adopted the amendments to IFRS 9 'Prepayment Features with Negative Compensation' on the same date.

Since the Group is continuing to apply IAS 39 hedge accounting requirements as allowed by IFRS 9, there has been no change to the 'derivatives and hedge accounting policy' – Accounting policy (r).

IFRS 9 *Financial Instruments* replaced IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes a revised classification and measurement model for financial assets, a forward looking expected credit loss ("ECL") impairment methodology and modifies the approach to hedge accounting.

The business model assessment test required by IFRS 9 was performed as at the date of initial application. The Group assessed whether the financial assets met the conditions for recognising a change in the classification/measurement basis at that date. This classification applies retrospectively.

Impairment losses were measured at the date of initial application under the 'expected credit loss model' set out in IFRS 9.

The impact net of tax on transition to IFRS 9 was € 267 million representing a reduction in revenue reserves and other comprehensive income, principally due to the impairment requirements.

Further details on the impact of adopting IFRS 9 at 1 January 2018 are set out in note 3 to these financial statements.

IFRS 9 accounting policies

The more significant accounting policies for the Group under IFRS 9:

Financial instruments

- Recognition and initial measurement;
- Classification and subsequent measurement;
- Interest income and expense recognition;
- Derecognition; and
- Impairment of financial assets

A summary of these policies is set out below under the relevant headings.

1 Accounting policies *(continued)*

(c) Basis of preparation *(continued)*

IFRS 15 *Revenue from Contracts with Customers*

The effective date for IFRS 15 *Revenue from Contracts with Customers* was 1 January 2018 and was adopted by the Group on that date by recognising the cumulative effect of initially adopting the standard as an adjustment to the opening balance of retained earnings.

IFRS 15 replaces all existing revenue recognition requirements in IFRS and applies to all revenue arising from contracts with customers unless the contracts are within the scope of other accounting standards.

The standard outlines the principles entities must apply to measure and recognise revenue with the core principle being that entities should recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for fulfilling its performance obligations to a customer.

IFRS 15 had the following impact on the date of initial adoption:

Increase in "Other assets"	€ 12 million
Decrease in "Deferred taxation"	€ 2 million
Increase in "Revenue reserves"	€ 10 million

The accounting policy on 'fee and commission income' set out below (h) replaces the previous accounting policy implemented under IAS 18.

(d) Basis of consolidation

Subsidiary undertakings

A subsidiary undertaking is an investee controlled by the Group. The Group controls an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated in the Group's financial statements from the date on which control commences until the date that control ceases.

The Group reassesses whether it controls a subsidiary when facts and circumstances indicate that there are changes to one or more elements of control.

Loss of control

If the Group loses control of a subsidiary, the Group:

(i) derecognises the assets (including any goodwill) and liabilities of the former subsidiary at their carrying amounts at the date control is lost;

(ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date control is lost (including any attributable amounts in other comprehensive income);

(iii) recognises the fair value of any consideration received and any distribution of shares of the subsidiary;

(iv) recognises any investment retained in the former subsidiary at its fair value at the date when control is lost; and

(v) recognises any resulting difference of the above items as a gain or loss in the income statement.

The Group subsequently accounts for any investment retained in the former subsidiary in accordance with IFRS 9 *Financial Instruments*, or when appropriate, IAS 28 *Investments in Associates and Joint Ventures*.

Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. The Group assesses whether it has control over such an entity by considering factors such as the purpose and design of the entity; the nature of its relationship with the entity; and the size of its exposure to the variability of returns of the entity.

1 Accounting policies *(continued)*

(d) Basis of consolidation

Business combinations

The Group accounts for the acquisition of businesses using the acquisition method except for those businesses under common control. Under the acquisition method, the consideration transferred in a business combination is measured at fair value, which is calculated as the sum of:

- the acquisition date fair value of assets transferred by the Group;
- liabilities incurred by the Group to the former owners of the acquiree; and
- the equity interests issued by the Group in exchange for control of the acquiree.

Acquisition related costs are recognised in the income statement as incurred.

Goodwill is measured as the excess of the sum of:

- the fair value of the consideration transferred;
- the amount of any non-controlling interests in the acquiree; and
- the fair value of the acquirer's previously held equity interest in the acquiree, if any; less
- the net of the acquisition date fair value of the identifiable assets acquired and liabilities assumed.

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets, and income arising thereon, are excluded from the financial statements, as they are not assets of the Group.

Non-controlling interests

For each business combination, the Group recognises any non-controlling interest in the acquiree either:

- at fair value; or
- at their proportionate share of the acquiree's identifiable net assets.

For changes in the Group's interest in a subsidiary that do not result in a loss of control, the Group adjusts the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The difference between the change in value of the non-controlling interest and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the parent.

Common control transactions

The Group accounts for the acquisition of businesses or 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 (ab) '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.

A business combination involving entities under common control is excluded from the scope of IFRS 3 *Business Combinations* where the combining entities or businesses are controlled by the same party both before and after the combination. In accounting for common control business combinations, the Group, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* uses its judgement in developing and applying an accounting policy that results in information that is relevant and reliable. In making this judgement, the Group considers the requirements in IFRSs dealing with similar and related issues. In addition, the Group reviews the

1 Accounting policies *(continued)*

(d) Basis of consolidation

Common control transactions *(continued)*

most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards in so far as these do not conflict with the IFRS framework. In this regard, the Group takes into account FRS 102 *'The Financial Reporting Standard applicable in the UK and Republic of Ireland'* on group reconstructions and merger accounting as issued by the Financial Reporting Council. Accordingly, the comparative consolidated financial statements for 2017 incorporate the acquired entity's (Allied Irish Banks, p.l.c.) results as if both entities, AIB Group plc and Allied Irish Banks, p.l.c. had always been combined and reflect both entities full year's results.

Details of the acquisition of Allied Irish Banks, p.l.c. by AIB Group plc and the accounting as a common control transaction are set out in note 46 'Corporate restructuring'.

Associated undertakings

An associated undertaking is an entity over which the Group has significant influence, but not control, over the entity's operating and financial policy decisions. If the Group holds 20% or more of the voting power of an entity, it is presumed that the Group has significant influence, unless it can be clearly demonstrated that this is not the case.

Investments in associated undertakings are initially recorded at cost and increased (or decreased) each year by the Group's share of the post acquisition net income (or loss), and other movements reflected directly in other comprehensive income of the associated undertaking.

Goodwill arising on the acquisition of an associated undertaking is included in the carrying amount of the investment. When the Group's share of losses in an associate has reduced the carrying amount to zero, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations to make payments on behalf of the associate.

Where the Group continues to hold more than 20% of the voting power in an investment but ceases to have significant influence, the investment is no longer accounted for as an associate. On the loss of significant influence, the Group measures the investment at fair value and recognises any difference between the carrying value and fair value in profit or loss and accounts for the investment in accordance with IFRS 9 *Financial Instruments*.

The Group's share of the results of associated undertakings after tax reflects the Group's proportionate interest in the associated undertaking and is based on financial statements made up to a date not earlier than three months before the period end reporting date, adjusted to conform with the accounting policies of the Group.

Since goodwill that forms part of the carrying amount of the investment in an associate is not recognised separately, it is, therefore, not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

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.

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.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(e) Foreign currency translation
Items included in the financial statements of each of the Group's entities are measured using their functional currency, being the currency of the primary economic environment in which the entity operates.

Transactions and balances
Foreign currency transactions are translated into the respective entity's functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-translation at period end exchange rates of the amortised cost of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Exchange differences on equities and similar non-monetary items held at fair value through profit or loss are reported as part of the fair value gain or loss. Exchange differences on equities designated at FVOCI, together with exchange differences on a financial liability designated as a hedge of the net investment in a foreign operation are reported in other comprehensive income.

Foreign operations
The results and financial position of all Group entities that have a functional currency different from the euro are translated into euro as follows:
- assets and liabilities including goodwill and fair value adjustments arising on consolidation of foreign operations are translated at the closing rate;
- income and expenses are translated into euro at the average rates of exchange during the period where these rates approximate to the foreign exchange rates ruling at the dates of the transactions;
- foreign currency translation differences are recognised in other comprehensive income; and
- since 1 January 2004, the Group's date of transition to IFRS, all such exchange differences are included in the foreign currency cumulative translation reserve within shareholders' equity. When a foreign operation is disposed of in full, the relevant amount of this reserve is transferred to the income statement. When a subsidiary is partly disposed of, the relevant proportion of foreign currency translation reserve is re-attributed to the non-controlling interest. In the case of a partial disposal, a pro-rata amount of the foreign currency cumulative translation reserve is transferred to the income statement. This also applies in the case where there has not been a reduction in the overall percentage holding, i.e. repayment of capital.

(f) Interest income and expense recognition
Interest income and expense is recognised in the income statement using the effective interest method.

Effective interest rate
The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to:
- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

The application of the method has the effect of recognising income receivable and expense payable on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating the effective interest rate for financial instruments other than credit impaired assets, the Group estimates cash flows (using projections based on its experience of customers' behaviour) considering all contractual terms of the financial instrument but excluding expected credit losses. The calculation takes into account all fees, including those for any expected early redemption, and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

All costs associated with mortgage incentive schemes are included in the effective interest rate calculation. Fees and commissions payable to third parties in connection with lending arrangements, where these are direct and incremental costs related to the issue of a financial instrument, are included in interest income as part of the effective interest rate.

Amortised cost and gross carrying amount
The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The gross carrying amount of a financial asset is the amortised cost before adjusting for any loss allowance.

1 Accounting policies *(continued)*

(f) Interest income and expense recognition *(continued)*

Calculation of interest income and interest expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability.

For financial assets that have become credit impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit impaired, the calculation of interest income reverts to the gross basis.

However, for financial assets that were credit impaired on initial recognition, interest income is calculated by applying the credit adjusted effective interest rate to the amortised cost of the financial asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

When a financial asset is no longer credit impaired or has been repaid in full (i.e. cured without financial loss), the Group presents previously unrecognised interest income as a reversal of credit impairment/recovery of amounts previously written-off. (The Group policy prior to the adoption of IFRS 9 on 1 January 2018 was to recognise such income in interest income).

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' on the income statement, as applicable.

Presentation

Interest income and expense presented in the consolidated income statement include:
- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- Interest on investment debt securities measured at FVOCI calculated on an effective interest basis;
- Interest on financial assets measured at FVTPL;
- Net interest income and expense on qualifying hedge derivatives designated as cash flow hedges or fair value hedges which are recognised in interest income or interest expense; and
- Interest income and funding costs of trading portfolio financial assets.

The Group policy for the recognition of leasing income is set out in Accounting policy (o).

(g) Dividend income

Dividends on equity investments measured at FVTPL are recognised in the income statement when the entity's right to receive payment is established. Dividends on equity investments measured at FVOCI are recognised in the income statement provided that they represent a return on capital.

(h) Fee and commission income

The measurement and timing of recognition of fee and commission income is based on the core principles of IFRS 15 *Revenue from Contracts with Customers.*

The principles in IFRS 15 are applied using the following 5 step model:
- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognise revenue when or as the Group satisfies its performance obligations.

Fee and commission income is recognised when the performance obligation in the contract has been performed, 'point in time' recognition, or 'over time' recognition if the performance obligation is performed over a period of time unless the income has been included in the effective interest rate calculation.

The Group includes in the transaction price, some or all of an amount of, variable consideration estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The majority of the Group's fee and commission income arises from retail banking activities. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or retained a part at the same effective interest rate as applicable to the other participants.

Foreign exchange income is fee income that is derived from arranging foreign exchange transactions on behalf of customers. Such income is recognised when the individual performance obligation has been fulfilled.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(h) Fee and commission income *(continued)*
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.

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

(j) Employee benefits
Retirement benefit obligations
The Group provides employees with post-retirement benefits mainly in the form of pensions.

The Group provides a number of retirement benefit schemes including defined benefit and defined contribution as well as a hybrid scheme that has both defined benefit and defined contribution elements. In addition, the Group contributes, according to local law in the various countries in which it operates, to governmental and other schemes which have the characteristics of defined contribution schemes. The majority of the defined benefit schemes are funded.

Full actuarial valuations of defined benefit schemes are undertaken every three years and are updated to reflect current conditions at each year end reporting date. Scheme assets are measured at fair value determined by using current bid prices. Scheme liabilities are measured on an actuarial basis by estimating the amount of future benefit that employees have earned for their service in current and prior periods and discounting that benefit at the market yield on a high quality corporate bond of equivalent term and currency to the liability. The calculation is performed by a qualified actuary using the projected unit credit method. The difference between the fair value of the scheme assets and the present value of the defined benefit obligation at the year end reporting date is recognised in the statement of financial position. Schemes in surplus are shown as assets and schemes in deficit, together with unfunded schemes, are shown as liabilities. A surplus is only recognised as an asset to the extent that it is recoverable through a refund from the scheme or through reduced contributions in the future. Actuarial gains and losses are recognised immediately in other comprehensive income.

The cost of providing defined benefit pension schemes to employees, comprising the net interest on the net defined benefit liability/(asset), calculated by applying the discount rate to the net defined benefit liability/(asset) at the start of the annual reporting period, taking into account contributions and benefit payments during the period, is charged to the income statement within personnel expenses.

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.

1 Accounting policies *(continued)*
Retirement benefit obligations *(continued)*

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. Gains or losses on plan amendments and curtailments are recognised in the income statement as a past service cost.

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) Operating leases

Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received and premiums paid at inception of the lease are recognised as an integral part of the total lease expense over the term of the lease.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(l) Income tax, including deferred income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income. Income tax relating to items in equity is recognised directly in equity. However, the income tax consequences of payments on financial instruments that are classified as equity but treated as liabilities for tax purposes are recognised in profit or loss if those payments are distributions of profits previously recognised in profit or loss.

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

Deferred income tax is provided, using the balance sheet liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the reporting date and expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred income tax assets are recognised when it is probable that future taxable profits will be available against which the temporary differences will be utilised. The deferred tax asset is reviewed at the end of each reporting period and the carrying amount will reflect the extent that sufficient taxable profits will be available to allow all of the asset to be recovered.

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

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

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and financial liabilities including derivative contracts, provisions for pensions and other post-retirement benefits, and in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future. In addition, the following temporary differences are not provided for: goodwill, the amortisation of which is not deductible for tax purposes, and assets and liabilities the initial recognition of which, in a transaction that is not a business combination, affects neither accounting nor taxable profit. Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which the profits arise.

1 Accounting policies *(continued)*

(m) Financial assets

Recognition and initial measurement

The Group initially recognises financial assets on the trade date, being the date on which the Group commits to purchase the assets. Loan assets are recognised when cash is advanced to borrowers.

Financial assets measured at amortised cost or at fair value through other comprehensive income ("FVOCI") are recognised initially at fair value adjusted for direct and incremental transaction costs. Financial assets measured at fair value through profit or loss ("FVTPL") are recognised initially at fair value and transaction costs are taken directly to the income statement.

Derivatives are measured initially at fair value on the date on which the derivative contract is entered into. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. Profits or losses are only recognised on initial recognition of derivatives when there are observable current market transactions or valuation techniques that are based on observable market inputs.

Classification and subsequent measurement

On initial recognition, a financial asset is classified and subsequently measured at amortised cost, FVOCI or FVTPL.
The classification and subsequent measurement of financial assets depend on:
- The Group's business model for managing the asset; and
- The cash flow characteristics of the asset (for assets in a 'hold-to-collect' or 'hold-to-collect-and-sell' business model).

Based on these factors, the Group classifies its financial assets into one of the following categories:

– Amortised cost

Assets that have not been designated as at FVTPL, and are held within a 'hold-to-collect' business model whose objective is to hold assets to collect contractual cash flows; and whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. The carrying amount of these assets is calculated using the effective interest method and is adjusted on each measurement date by the expected credit loss allowance for each asset, with movements recognised in profit or loss.

– Fair value through other comprehensive income ("FVOCI")

Assets that have not been designated as at FVTPL, and are held within a 'hold-to-collect-and-sell' business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI"). Movements in the carrying amount of these assets are taken through other comprehensive income ("OCI"), except for the recognition of credit impairment gains or losses, interest revenue or foreign exchange gains and losses, which are recognised in profit or loss. When a financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss other than in the case of equity instruments designated at FVOCI.

– 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.

1 Accounting policies *(continued)*

(m) Financial Assets *(continued)*

Business model assessment

The Group makes an assessment of the objective of the business model at a portfolio level, as this reflects how portfolios of assets are managed to achieve a particular objective, rather than management's intentions for individual assets.
The assessment considers the following:

– The strategy for the portfolio as communicated by management;
– How the performance of the portfolio is evaluated and reported to senior management;
– The risks that impact the performance of the business model, and how those risks are managed;
– How managers of the business are compensated (i.e. based on fair value of assets managed or on the contractual cash flows collected); and
– The frequency, value and timing of sales in prior periods, reasons for those sales, and expectations of future sales activity.

Financial assets that are held for trading or managed within a business model that is evaluated on a fair value basis are measured at FVTPL because the business objective is neither hold-to-collect contractual cash flows nor hold-to-collect-and-sell contractual cash flows.

Characteristics of the contractual cash flows

An assessment ('SPPI test') is performed on all financial assets at origination that are held within a 'hold-to-collect' or 'hold-to-collect-and-sell' business model to determine whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset at initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding, and for other basic lending risks and costs (i.e. liquidity, administrative costs), and profit margin.

The SPPI test requires an assessment of the contractual terms and conditions to determine whether a financial asset contains any terms that could modify the timing or amount of contractual cash flows of the asset, to the extent that they could not be described as solely payments of principal and interest. In making this assessment, the Group considers:

– Features that modify the time value of money element of interest (e.g. tenor of the interest rate does not correspond with the frequency within which it resets);
– Terms providing for prepayment and extension;
– Leverage features;
– Contingent events that could change the amount and timing of cash flows;
– Terms that limit the Group's claim to cash flows from specified assets; and
– Contractually linked instruments.

Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Reclassifications

Reclassifications of financial assets to alternative asset categories, (e.g. from amortised cost to FVOCI), should be very infrequent, and will only occur if the Group decides to make a fundamental change in 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.

1 Accounting policies *(continued)*

(n) Financial liabilities and equity

The Group categorises financial liabilities as at amortised cost or as at fair value through profit or loss.

The Group recognises a financial liability when it becomes party to the contractual provisions of the contract.

Issued financial instruments or their components are classified as liabilities where the substance of the contractual arrangement results in the Group having a present obligation to either deliver cash or another financial asset to the holder, to exchange financial instruments on terms that are potentially unfavourable or to satisfy the obligation otherwise than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity shares.

Financial liabilities are initially recognised at fair value, being their issue proceeds (fair value of consideration received), net of transaction costs incurred. Financial liabilities are subsequently measured at amortised cost, with any difference between the proceeds net of transaction costs and the redemption value recognised in the income statement using the effective interest method.

Where financial liabilities are classified as trading they are also initially recognised at fair value with the related transaction costs taken directly to the income statement. Gains and losses arising from subsequent changes in fair value are recognised directly in the income statement within net trading income.

Preference shares which carry a mandatory coupon are classified as financial liabilities. The dividends on these preference shares are recognised in the income statement as interest expense using the effective interest method.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. Any gain or loss on the extinguishment or 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.

(o) 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

Operating lease rentals payable are recognised as an expense in the income statement on a straight line basis over the lease term unless another systematic basis is more appropriate.

(p) Determination of fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The Group considers the impact of non-performance risk when valuing its financial liabilities.

Financial instruments are initially recognised at fair value and, with the exception of financial assets at fair value through profit or loss, the initial carrying amount is adjusted for direct and incremental transaction costs. In the normal course of business, the fair value on initial recognition is the transaction price (fair value of consideration given or received). If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is determined by a quoted price in an active market for the same financial instrument, or by a valuation technique which uses only observable market inputs, the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss. If the fair value is calculated by a valuation technique that features significant market inputs that are not observable, the difference between the fair value at initial recognition and the transaction price is deferred. Subsequently, the difference is recognised in the income statement on an appropriate basis over the life of the financial instrument, but no later than when the valuation is supported by wholly observable inputs; the transaction matures; or is closed out.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(p) Determination of fair value of financial instruments

Subsequent to initial recognition, the methods used to determine the fair value of financial instruments include quoted prices in active markets where those prices are considered to represent actual and regularly occurring market transactions. Where quoted prices are not available or are unreliable because of market inactivity, fair values are determined using valuation techniques. These valuation techniques maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The valuation techniques used incorporate the factors that market participants would take into account in pricing a transaction. Valuation techniques include the use of recent orderly transactions between market participants, reference to other similar instruments, option pricing models, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Quoted prices in active markets

Quoted market prices are used where those prices are considered to represent actual and regularly occurring market transactions for financial instruments in active markets.

Valuations for negotiable instruments such as debt and equity securities are determined using bid prices for asset positions and ask prices for liability positions.

Where securities are traded on an exchange, the fair value is based on prices from the exchange. The market for debt securities largely operates on an 'over the counter' basis which means that there is not an official clearing or exchange price for these security instruments. Therefore, market makers and/or investment banks ('contributors') publish bid and ask levels which reflect an indicative price that they are prepared to buy and sell a particular security. The Group's valuation policy requires that the prices used in determining the fair value of securities quoted in active markets must be sourced from established market makers and/or investment banks.

Valuation techniques

In the absence of quoted market prices, and in the case of over-the-counter derivatives, fair value is calculated using valuation techniques. Fair value may be estimated using quoted market prices for similar instruments, adjusted for differences between the quoted instrument and the instrument being valued. Where the fair value is calculated using discounted cash flow analysis, the methodology is to use, to the extent possible, market data that is either directly observable or is implied from instrument prices, such as interest rate yield curves, equities and commodities prices, credit spreads, option volatilities and currency rates. In addition, the Group considers the impact of own credit risk and counterparty risk when valuing its derivative liabilities.

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

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

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

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

1 Accounting policies *(continued)*

(p) Determination of fair value of financial instruments *(continued)*

The Group tests the outputs of the valuation model to ensure that it reflects current market conditions. The calculation of fair value for any financial instrument may require adjustment of the quoted price or the valuation technique output to reflect the cost of credit risk and the liquidity of the market, if market participants would include one, where these are not embedded in underlying valuation techniques or prices used.

The choice of contributors, the quality of market data used for pricing, and the valuation techniques used are all subject to internal review and approval procedures.

Transfers between levels of the fair value hierarchy

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

(q) Sale and repurchase agreements (including stock borrowing and lending)

Financial assets may be lent or sold subject to a commitment to repurchase them ('repos'). Such securities are retained on the statement of financial position when substantially all the risks and rewards of ownership remain with the Group. The liability to the counterparty is included separately on the statement of financial position. Similarly, when securities are purchased subject to a commitment to resell ('reverse repos'), or where the Group borrows securities, but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not usually included in the statement of financial position. The difference between the sale and repurchase price is accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements. The exception to this is where these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss included in trading income.

(r) Derivatives and hedge accounting

Derivatives, such as interest rate swaps, options and forward rate agreements, currency swaps and options, and equity index options are used for trading purposes while interest rate swaps, currency swaps, cross currency interest rate swaps and credit derivatives are used for hedging purposes.

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

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

Derivatives

Derivatives are measured initially at fair value on the date on which the derivative contract is entered into and subsequently remeasured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and from valuation techniques using discounted cash flow models and option pricing models as appropriate. Derivatives are included in assets when their fair value is positive, and in liabilities when their fair value is negative, unless there is the legal ability and intention to settle an asset and liability on a net basis.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

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.

1 Accounting policies *(continued)*

(r) Derivatives and hedge accounting *(continued)*

Hedging

The Group has opted to remain with the IAS 39 hedge accounting requirements until macro hedge accounting is addressed by the IASB as part of a separate project. This is an accounting policy choice allowed by IFRS 9.

All derivatives are carried at fair value and the accounting treatment of the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Where derivatives are held for risk management purposes, and where transactions meet the criteria specified in IAS 39 *Financial Instruments: Recognition and Measurement*, the Group designates certain derivatives as either:

– hedges of the fair value of recognised assets or liabilities or firm commitments ('fair value hedge'); or
– hedges of the exposure to variability of cash flows attributable to a recognised asset or liability, or a highly probable forecasted transaction ('cash flow hedge'); or
– hedges of a net investment in a foreign operation.

When a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The Group discontinues hedge accounting when:

a) it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
b) the derivative expires, or is sold, terminated, or exercised;
c) the hedged item matures or is sold or repaid; or
d) a forecast transaction is no longer deemed highly probable.

To the extent that the changes in the fair value of the hedging derivative differ from changes in the fair value of the hedged risk in the hedged item; or the cumulative change in the fair value of the hedging derivative differs from the cumulative change in the fair value of expected future cash flows of the hedged item, ineffectiveness arises. The amount of ineffectiveness, (taking into account the timing of the expected cash flows, where relevant) provided it is not so great as to disqualify the entire hedge for hedge accounting, is recorded in the income statement.

In certain circumstances, the Group may decide to cease hedge accounting even though the hedge relationship continues to be highly effective by no longer designating the financial instrument as a hedge.

Fair value hedge accounting

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the fair value hedging adjustment cumulatively made to the carrying value of the hedged item is, for items carried at amortised cost, amortised over the period to maturity of the previously designated hedge relationship using the effective interest method. For debt securities measured at FVOCI, the fair value adjustment for hedged items is recognised in the income statement using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash flow hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is initially recognised directly in other comprehensive income and included in the cash flow hedging reserve in the statement of changes in equity. The amount recognised in other comprehensive income is reclassed to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in other comprehensive income from the time when the hedge was effective remains in equity and is reclassified to the income statement as a reclassification adjustment as the forecast transaction affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income from the period when the hedge was effective is reclassified to the income statement.

1 Accounting policies *(continued)*

(r) Derivatives and hedge accounting *(continued)*

Net investment hedge
Hedges of net investments in foreign operations, including monetary items that are accounted for as part of the net investment, are accounted for similarly to cash flow hedges. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and the ineffective portion is recognised immediately in the income statement. The cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement on the disposal or partial disposal of the foreign operation. Hedges of net investments may include non-derivative liabilities as well as derivative financial instruments.

Derivatives that do not qualify for hedge accounting
Certain derivative contracts entered into as economic hedges do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the income statement.

(s) Derecognition

Financial assets
The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Relevant costs incurred with the disposal of a financial asset are deducted in computing the gain or loss on disposal.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. However, the amount held in investment securities reserves is transferred to revenue reserves on derecognition. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate or is less than adequate for performing the servicing.

The write-off of a financial asset constitutes a derecognition event. Where a financial asset is partially written-off, and the portion written-off comprises specifically identified cash flows, this will constitute a derecognition event for that part written-off.

1 Accounting policies *(continued)*

(t) Impairment of financial assets

The Group recognises loss allowances for expected credit losses at each balance sheet date for the following financial instruments that are not measured at FVTPL:
- Financial assets at amortised cost;
- Financial assets at FVOCI (except for equity instruments);
- Lease receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued.

Investments in equity instruments are recognised at fair value, accordingly, expected credit losses are not recognised separately for equity instruments.

ECLs are the weighted average of credit losses. These are an estimate of credit losses over the life of a financial instrument.
When measuring ECLs, the Group takes into account:
- probability-weighted outcomes;
- the time value of money so that ECLs are discounted to the reporting date; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The amount of ECLs recognised as a loss allowance depends on the extent of credit deterioration since initial recognition. There are two measurement bases:
- 12-month ECLs (Stage 1), which applies to all items as long as there is no significant deterioration in credit quality since initial recognition; and
- Lifetime ECLs (Stages 2 and 3), which applies when a significant increase in credit risk has occurred on an individual or collective basis.

The 12 month ECL is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL is the expected credit losses that result from all possible default events over the expected life of a financial instrument.

In the case of Stage 2, credit risk on the financial instrument has increased significantly since initial recognition but the instrument is not considered credit impaired. For a financial instrument in Stage 3, credit risk has increased significantly since initial recognition and the instrument is considered credit impaired.

Financial assets are allocated to stages dependent on credit quality relative to when the asset was originated.

A financial asset can only originate in either Stage 1 or as purchased or originated credit impaired (“POCI”). The ECL held against an asset depends on a number of factors, one of which is its stage allocation. Assets allocated to Stage 2 and Stage 3 have lifetime ECLs. Collateral and other credit enhancements are not considered as part of stage allocation. Collateral is reflected in the Group’s loss given default models (‘LGD’).

Purchased or originated credit impaired

Purchased or originated credit impaired (“POCI”) financial assets are those that are credit-impaired on initial recognition. The Group may originate a credit-impaired financial asset following a substantial modification of a distressed financial asset that resulted in derecognition of the original financial asset.

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

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

1 Accounting policies *(continued)*

(t) Impairment of financial assets *(continued)*

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 profit or loss. Favourable changes in lifetime expected credit losses are recognised as a credit impairment gain, even if the favourable changes exceed the amount previously recognised in profit or loss as a credit impairment loss.

Modification

From time to time, the Group will modify the original terms of a customer's loan either as part of the ongoing relationship or arising from changes in the customer's circumstances such as when that customer is unable to make the agreed original contractual repayments. A modification refers to either:

- A change to the previous terms and conditions of a debt contract; or
- A total or partial refinancing of a debt contract.

Modifications may occur for both customers in distress and for those not in distress. Any financial asset that undergoes a change or renegotiation of cash flows and is not derecognised is a modified financial asset.

When modification does not result in derecognition, the modified assets are treated as the same continuous lending agreement but requires a modification gain or loss to be taken to profit or loss immediately. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

The stage allocation for modified assets which are not derecognised is by reference to the credit risk at initial recognition of the original, unmodified contractual terms i.e. the date of initial recognition is not reset.

Where renegotiation of the terms of a financial asset leads to a customer granting equity to the Group in exchange for any loan balance outstanding, the new instrument is recognised at fair value with any difference to the loan carrying amount recognised in the income statement.

Derecognition occurs if a modification or restructure is substantial on a qualitative or quantitative basis. Accordingly, certain forborne assets are derecognised. The modified/restructured asset (derecognised forborne asset ('DFA')) is considered a 'new financial instrument' and the date that the new asset is recognised is the date of initial recognition from this point forward. DFAs are allocated to Stage 1 on origination and follow the normal staging process, thereafter.

If there is evidence of credit impairment at the time of initial recognition of a DFA, and the fair value at recognition is at a discount to the contractual amount of the obligation, the asset is deemed to be a POCI. POCIs are not allocated to stages but are assigned a lifetime PD and ECL for the duration of the obligation's life. Where the modification/restructure of a non-forborne credit obligation results in derecognition, the new loan is originated in Stage 1 and follows the normal staging process thereafter.

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 which 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).

1 Accounting policies *(continued)*

(t) Impairment of financial assets *(continued)*

Write-offs and debt forgiveness

The Group reduces the gross carrying amount of a financial asset either partially or fully when there is no reasonable expectation of recovery.

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

Once a financial asset is written-off either partially or fully, the amount written-off cannot subsequently be recognised on the balance sheet. It is only when cash is received in relation to the amount written-off that income is recognised in the income statement as a 'recovery of bad debt previously written-off'.

Debt forgiveness arises where there is a formal contract agreed with the customer for the write-off of a loan.

(u) Collateral and netting

The Group enters into master netting agreements with counterparties, to ensure that if an event of default occurs, all amounts outstanding with those counterparties will be settled on a net basis.

Collateral

The Group obtains collateral in respect of customer advances where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities. The collateral is, in general, not recorded on the statement of financial position.

The Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts and derivative contracts in order to reduce credit risk. Collateral received in the form of securities is not recorded on the statement of financial position. Collateral received in the form of cash is recorded on the statement of financial position with a corresponding liability. Therefore, in the case of cash collateral, these amounts are assigned to deposits received from banks or other counterparties. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

In certain circumstances, the Group will pledge collateral in respect of its own liabilities or borrowings. Collateral pledged in the form of securities or loans and advances continues to be recorded on the statement of financial position. Collateral paid away in the form of cash is recorded in loans and advances to banks or customers. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

Netting

Financial assets and financial liabilities are offset and the net amount reported on the statement of financial position if, and only if, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross on the statement of financial position.

(v) 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 which 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.

1 Accounting policies *(continued)*

(w) 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 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.

(x) 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 7 years. Other intangible assets are amortised over the life of the asset. Computer software and other intangible assets are reviewed for impairment when there is an indication that the asset may be impaired. Intangible assets not yet available for use are reviewed for impairment on an annual basis.

(y) 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 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 of 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 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.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(z) 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.

(aa) Non-credit risk provisions

Provisions are recognised for present legal or constructive obligations arising as consequences of past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

When the effect is material, provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Payments are deducted from the present value of the provision, and interest at the relevant discount rate, is charged annually to interest expense using the effective interest method. Changes in the present value of the liability as a result of movements in interest rates are included in other income. The present value of provisions is included in other liabilities.

When a decision is made that a leasehold property will cease to be used in the business, provision is made, where the unavoidable costs of future obligations relating to the lease are expected to exceed anticipated income. Before the provision is established, the Group recognises any impairment loss on the assets associated with the lease contract.

Restructuring costs

Where the Group has a formal plan for restructuring a business and has raised valid expectations in the areas affected by the restructuring by starting to implement the plan or announcing its main features, provision is made for the anticipated cost of restructuring, including retirement benefits and redundancy costs, when an obligation exists. The provision raised is normally utilised within twelve months. Future operating costs are not provided for.

Legal claims and other contingencies

Provisions are made for legal claims where the Group has present legal or constructive obligations as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Contingent liabilities are possible obligations whose existence will be confirmed only by the occurrence of uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably estimated. Contingent liabilities are not recognised but are disclosed in the notes to the financial statements unless the possibility of the transfer of economic benefit is remote.

A provision is recognised for a constructive obligation where a past event has led to an obligating event. This obligating event has left the Group with little realistic alternative but to settle the obligation and the Group has created a valid expectation in other parties that it will discharge the obligation.

1 Accounting policies *(continued)*

(ab) Equity

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

On extinguishment of equity instruments, gains or losses arising are recognised net of tax directly in the statement of changes in equity.

Share capital

Share capital represents funds raised by issuing shares in return for cash or other consideration. Share capital comprises ordinary shares and Subscriber Shares of the entity.

Share premium

When shares are issued at a premium whether for cash or otherwise, the excess of the amount received over the par value of the shares is transferred to share premium.

Share issue costs

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

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 59.

Other equity interests

Other equity interests include Additional Tier 1 Perpetual Contingent Temporary Write-down Securities (AT1s) issued on 3 December 2015 which are accounted for as equity instruments in the statement of financial position (note 44). Distributions on the AT1s are recognised in equity when approved for payment by the Board of Directors.

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.

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 45). These contributions comprise both financial and non-financial net assets. The contributions are classified as equity and may be either distributable or non-distributable. Capital contributions are distributable if the assets received are in the form of cash or another asset that is readily convertible to cash, otherwise, they are treated as non-distributable. Capital contributions arose during 2011 from (a) EBS transaction; (b) Anglo transaction; and (c) 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. In the case of the Anglo transaction, the excess of the assets over the liabilities comprised of NAMA senior bonds. On initial recognition, this excess was accounted for as a non-distributable capital contribution. However, according as NAMA repaid these bonds, the proceeds received were deemed to be distributable and the relevant amount was transferred from the capital contribution account to revenue reserves. All NAMA senior bonds were fully repaid at 31 December 2017.

The non-refundable receipts of € 6,054 million from the Irish Government and the NPRFC are distributable. These are included in revenue reserves.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

(ab) Equity *(continued)*

Capital redemption reserves

Capital redemption reserves arose in 2015 from the redemption of 2,140 million 2009 Preference Shares whereby on redemption, the nominal value of shares redeemed was transferred from the share capital account to the capital redemption reserve account. In addition, the nominal value of treasury shares cancelled was transferred from the share capital to the capital redemption reserve account.

In 2018, Subscriber Shares were redeemed resulting in a transfer of € 25,000 from revenue reserves to capital redemption reserves.

Revaluation reserves

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

Investment securities reserves (previously available for sale securities reserves)

Investment securities reserves represent the net unrealised gain or loss, net of tax, arising from the recognition in the statement of financial position of investment securities at FVOCI.

On disposal of equity securities which had been designated at FVOCI on initial recognition, any amounts held in the investment securities reserves account is transferred directly to revenue reserves without recycling through profit or loss.

Cash flow hedging reserves

Cash flow hedging reserves represent the net gains or losses, net of tax, on effective cash flow hedging instruments that will be reclassified to the income statement when the hedged transaction affects profit or loss.

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 (note 46).

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

Foreign currency cumulative translation reserves

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

Merger reserve

Under the Scheme of Arrangement (“the Scheme”) approved by the High Court on 6 December 2017 which became effective on 8 December 2017, a new company, AIB Group plc (‘the Company’), was introduced as the holding company of AIB Group. AIB Group plc is a public limited company registered in Ireland. The share capital of Allied Irish Banks, p.l.c., other than a single share owned by AIB Group plc, was cancelled and an equal number of new shares were issued by the Company to the shareholders of Allied Irish Banks, p.l.c. The difference between the carrying value of the net assets of Allied Irish Banks, p.l.c. entity on acquisition by the Company and the nominal value of the shares issued on implementation of the Scheme was accounted for as a merger reserve (note 45). Impairment losses arising from AIB Group plc’s investment in Allied Irish Banks, p.l.c. will be charged to the profit or loss account and transferred to the merger reserve in so far as a credit balance remains in the merger reserve.

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

1 Accounting policies *(continued)*

(ac) 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.

(ad) 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/Leadership Team. The Executive Committee/Leadership Team is the CODM and it relies primarily on the management accounts to assess performance of the reportable segments and when making resource allocation decisions.

Transactions between operating segments are on normal commercial terms and conditions, with internal charges and transfer pricing adjustments reflected in the performance of each operating segment. Revenue sharing agreements are used to allocate external customer revenues to an operating segment on a reasonable basis.

Geographical segments provide products and services within a particular economic environment that is subject to risks and rewards that are different to those components operating in other economic environments. The geographical distribution of profit before taxation is based primarily on the location of the office recording the transaction. In addition, geographic distribution of loans and related impairment is also based on the location of the office recording the transaction.

(ae) Prospective accounting changes
The following new standards and 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 is currently considering the impacts of these new standards and amendments. The new accounting standards and amendments which are more relevant to the Group are detailed below:

IFRIC 23 Uncertainty over Income Tax Treatments
IFRIC 23 Interpretation on 'Uncertainty over Income Tax Treatments' which was issued in June 2017 clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments that have yet to be accepted by the tax authorities.

The Interpretation specifically addresses the following:
- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

IFRIC 23 is expected to have an insignificant effect on the financial statements.

Effective date: Annual reporting periods beginning on or after 1 January 2019.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
The amendments to IAS 28 regarding long-term interests in associates and joint ventures which were issued in October 2017, clarify that:
- An entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

These amendments are not expected to have a significant impact on the Group.

Effective date: Annual reporting periods beginning on or after 1 January 2019.

1 Accounting policies *(continued)*

(ae) Prospective accounting changes *(continued)*

Annual Improvements: 2015-2017 cycle

The IASB's annual improvements project provides a process for making amendments to IFRSs that are considered non-urgent but necessary. The amendments clarify guidance and wording, or correct for relatively minor unintended consequences, conflicts or oversights in existing IFRSs. Annual Improvements to IFRSs 2015- 2017 Cycle amends IFRSs in relation to three issues addressed during this cycle.

The Group has early adopted 'Amendments to IAS 12 Income Taxes- Recognition of current and deferred tax' which is one of the clarifications included in the 2015-2017 cycle. This clarification requires that the income tax consequences of payments on financial instruments that are classified as equity but treated as liabilities for tax purposes be recognised in profit or loss if those payments are distributions of profits previously recognised in profit or loss. The adoption of these amendments has resulted in € 14 million being recognised as a tax credit in the income statement rather than directly in equity. Comparatives are not restated as there was no impact on the 2017 financial statements.

None of the other amendments are expected to have a significant impact on reported results or disclosures.

Effective date: Annual reporting periods beginning on or after 1 January 2019.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 regarding Plan Amendment, Curtailment or Settlement which were issued in February 2018, require the following change:

- If a plan amendment, curtailment or settlement occurs, it is required that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.
- Amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

These amendments are not expected to have a significant impact on the Group.

Effective date: Annual reporting periods beginning on or after 1 January 2019.

Amendments to IFRS 3 Business Combinations

The amendments to IFRS 3 Business Combinations, which were issued in October 2018, clarify the definition of a business through the following changes:

- To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process;
- They narrow the definitions of a business and outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.

These amendments are not expected to have a significant impact on the Group.

Effective date: Business combinations where the acquisition date is on or after annual reporting periods beginning on or after 1 January 2020.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments to IAS 1 and IAS 8 regarding the definition of material which were issued in October 2018, clarify the definition of material through the following changes:

- A revised definition of 'material' which is included in the defined terms
- as follows "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity".

These amendments are not expected to have a significant impact on the Group.

Effective date: Annual reporting periods beginning on or after 1 January 2020.

1 Accounting policies *(continued)*

(ae) Prospective accounting changes *(continued)*

IFRS 16 *Leases*

IFRS 16 *Leases*, which was issued in January 2016, replaces IAS 17 *Leases* with effect from 1 January 2019. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Under IFRS 16, a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained.

On transition, the Group will apply this standard using the modified retrospective approach for leases previously classified as operating leases, under this approach the Group will not restate comparative figures. Lease liabilities will be measured at the present value of the remaining lease payments discounted at the Group's incremental borrowing rate at the date of initial application. The right-of-use assets will be measured at an amount equal to the lease liabilities.

On transition, the Group will apply the following practical expedients when applying IFRS 16 to leases previously classified as operating under IAS 17:

– apply the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining;
– for right-of-use assets that are impaired on transition, the Group will avail of the practical expedient allowed by the standard and rely on its assessment of whether leases are onerous as an alternative to performing an impairment review. Accordingly, it will adjust the right-of-use asset at the date of initial application by the amount of any provision for onerous leases recognised in the statement of financial position immediately before the date of initial application.

IFRS 16 will impact the Group as it is the lessee of a number of properties which are classified under IAS 17 as operating leases. The Group has assessed its impact, and the assets and liabilities in the statement of financial position will increase by € 0.5 billion on implementation. (This includes minimum lease payments as outlined in note 55 'Commitments' together with additional lease payments which the Group is reasonably certain to incur beyond the termination option of a break clause). The expected impact on the income statement in 2019 is not disclosed given the significant changes occurring in the Group's property footprint. However, the overall impact of IFRS 16 over the life of a lease will be neutral on the income statement, whilst its implementation will result in a higher charge in the earlier years following implementation with a lower charge in later years.

Effective date: Annual periods beginning on or after 1 January 2019.

Notes to the consolidated financial statements

2 Critical accounting judgements and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates.

The accounting policies that are deemed critical to the Group's results and financial position, in terms of the materiality of the items to which the policy is applied and the estimates that have a significant impact on the financial statements are set out in this section. In addition, estimates with a significant risk of material adjustment in the next year are also discussed.

Impairment of financial assets

The Group's accounting policy for impairment of financial assets is set out in accounting policy (t) in note 1. The expected credit loss ('ECL') allowance for financial assets at 31 December 2018 represent management's best estimate of the expected credit losses on the various portfolios at the reporting date.

On 1 January 2018, the Group implemented the three stage ECL impairment model under IFRS 9. The calculation of the ECL allowance is required for all financial assets measured at amortised cost, financial assets at FVOCI (apart from equities) and loan commitments and financial guarantee contracts.

The estimation of the ECL allowance is inherently uncertain and depends upon many factors, including loan loss trends, portfolio grade profiles, local and international economic climates both current and evolving, conditions in various industries to which the Group is exposed and other external factors such as legal and regulatory requirements.

The implementation of an expected credit loss model for the first time has resulted in a new methodology and basis for calculating impairment losses compared to the incurred loss model under IAS 39. The calculation of ECL allowances is complex and therefore, an entity must consider much more information in the determination of such expectations of future credit losses. This process requires significant use of estimates, judgements and assumptions, some of which, by their nature, are highly subjective and very sensitive to risk factors such as changes to economic conditions. Further information on the IFRS 9 measurement, methodologies and judgements is detailed on pages 85 to 92.

The management process for the calculation of ECL allowances is underpinned by independent tiers of review. Credit quality and ECL provisioning are independently monitored by credit and risk management on a regular basis. All the Group's segments assess and approve their ECL allowances and their adequacy on a quarterly basis. These ECL allowances are, 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 92.

On an ongoing basis, the various judgements, estimates and assumptions are reviewed in light of differences between actual and previously calculated expected losses. These are then recalibrated and refined to reflect current and evolving economic conditions. After a period of time, when it is concluded that there is no reasonable expectation of recovering a Stage 3 loan in its entirety or a portion thereof, the Group reduces the gross carrying amount directly by the relevant ECL allowance for that amount deemed irrecoverable.

Inputs for calculating ECL allowance

The inputs to models used to derive the ECL allowance rely, to a large extent, on reasonably supportable past events as predictors of future outcomes. Given the severe financial crisis which affected the Irish banking sector in the past, the use of historical loss data as a predictor of future outcomes may not be relevant due to significant changes in circumstances albeit that this data has been be adjusted on the basis of current observable data in order to reflect the effects of current conditions.

The ECL methodology has resulted in a reassessment of the critical accounting judgements and estimates used for the determination of loss allowances which are as follows:

- Determining the criteria for a significant increase in credit risk and for being classified as credit impaired;
- Choosing the appropriate models and assumptions for measuring ECL, e.g. PD, LGD and EAD;
- Determining the life of a financial instrument and therefore, the period over which to measure ECL;
- Establishing the number and relative weightings for forward looking scenarios for each asset class and ECL, particularly in relation to Brexit uncertainty; and
- Stratifying financial assets into groups with similar risk characteristics.

2 Critical accounting judgements and estimates

Inputs for calculating ECL allowance *(continued)*

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 Republic of 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 Group estimates its ECL provisions on Mortgages based on its historic experience of working out arrangements with customers which predominantly consist of split mortgages, low fixed interest rate, voluntary sale for loss, negative equity trade down and positive equity solutions. This is consistent with the Group's strategy to deliver sustainable long-term solutions and to support customers.
In particular, the IFRS 9 Mortgage LGD model which was implemented from 1 January 2018 is based on the actual empirical internal data for such resolved and unresolved cases, and represents the Group's expected loss based on those current and expected work-out strategies at the time. However, for a cohort of loans that are deep in arrears and/or in a legal process for a significant period of time, it is recognised that alternative recovery strategies may need to be considered. To reflect the range of possible outcomes for this cohort where alternative recovery strategies are required, management judgement has been applied to increase the ECL outcome on transition on 1 January 2018 and as at 31 December 2018.

Forbearance

The Group's accounting policy for forbearance is set out in accounting policy (t) 'Impairment of financial assets' in note 1 which incorporates forbearance. The Group has developed a number of forbearance strategies for both short-term and longer-term solutions to assist customers experiencing financial difficulties. The forbearance strategies involve modifications to contractual repayment terms in order to improve the collectability of outstanding debt, to avoid default, and where relevant, to avoid repossessions. Forbearance strategies take place in both retail and business portfolios, particularly, residential mortgages. Where levels of forbearance are significant, higher levels of uncertainty with regard to judgement and estimation are involved in determining the effects of forbearance strategies on ECL allowances and on the future cash flows arising from restructured loans. Further information on forbearance strategies is set out in the 'Risk management' section of this report.

Notes to the consolidated financial statements

2 Critical accounting judgements and estimates *(continued)*

Deferred taxation

The Group's accounting policy for deferred tax is set out in accounting policy (l) in note 1. Details of the Group's deferred tax assets and liabilities are set out in note 33.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable (defined for this purpose as more likely than not) that there will be sufficient future taxable profits against which the losses can be used. For a company with a history of recent losses, there must be convincing other evidence to underpin this assessment. The recognition of the deferred tax asset 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;
- turnaround evident in the financial performance over the past five years and the continuing growth in the Irish economy since 2014;
- external forecasts for Ireland which indicate continued economic growth through the period of the medium–term financial plans;
- the success of the IPO in June 2017, reflecting market confidence in the strategy of the Group and its long term financial prospects;
- the introduction of the bank resolution framework under the BRRD and the establishment in 2017 of AIB Group plc as the new holding company of the Group provides greater confidence in relation to the future viability of Allied Irish Banks, p.l.c. (as the principal operating bank subsidiary) as there are now effective tools in place that should facilitate its recapitalisation in a future crisis; and
- the non-enduring nature of the loan impairments at levels which resulted in the losses in prior years (2009-2013).

The Board considered negative evidence and the inherent uncertainties in any long-term financial assumptions and projections, including:

- the absolute level of deferred tax assets compared to the Group's equity;
- the quantum of profits required to be earned and the extended period over which it is projected that the tax losses will be utilised;
- the challenge of forecasting over a long period, taking account of the level of competition, market dynamics and resultant margin and funding pressures;
- the impact of Brexit;
- potential instability in the eurozone and global economies over an extended period; and
- taxation changes (including Bank Levy and changes to the UK tax rates and the utilisation of deferred tax assets) and the likelihood of future developments and their impact on profitability and utilisation.

The return to profitability objective was realised in 2014 and has continued to date. Profitability and growth has been reaffirmed in the annual planning exercise covering the period 2019 to 2021 undertaken by the Group in the second half of 2018. Growth assumptions and profitability levels underpinning the plan are within market norms.

2 Critical accounting judgements and estimates *(continued)*

Deferred taxation *(continued)*

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 based on the financial planning outturn 2019 to 2021. Assuming a sustainable market return on equity (c.8.0%) over the long term for future profitability levels in Ireland and a GDP growth in Ireland of 2.5%, based on this scenario, it will take less than 20 years for the deferred tax asset (€ 2.7 billion) to be utilised. Furthermore, under this scenario, it is expected that 47% of the deferred tax asset will be utilised within 10 years (2017: 51%) and 83% utilised within 15 years (2017: 89%).

In a more stressed scenario with a return on equity of 5.6% and GDP growth of 1.5%, the utilisation period increases by a further 7 years. The Group's analysis of the results of the scenarios examined would not alter the basis of recognition or the current carrying value.

Notwithstanding the absence of any expiry date for tax losses in the UK, the Group has concluded that the recognition of deferred tax assets in its UK subsidiary be limited to the amount projected to be realised within a time period of 15 years. This is the timescale within which the Group believes that it can assess the likelihood of its UK profits arising as being more likely than not. The deferred tax asset for unutilised tax losses in the UK amounts to £ 114 million at 31 December 2018.

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 € 2,808 million of which € 2,680 million relates to Irish tax losses and € 128 million relates to UK tax losses.
IAS 12 does not permit a company to apply present value discounting to its deferred tax assets or liabilities, regardless of the estimated timescales over which those assets or liabilities are projected to be realised. The Group's deferred tax assets are projected to be realised over a long timescale, benefiting from the absence of any expiry date for Irish or UK tax losses. As a result, the carrying value of the deferred tax assets on the statement of financial position does not reflect the economic value of those assets.

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 (p) in note 1. The best evidence of fair value is quoted prices in an active market. The absence of quoted prices increases reliance on valuation techniques and requires the use of judgement in the estimation of fair value. This judgement includes but is not limited to: evaluating available market information; determining the cash flows for the instruments; identifying a risk free discount rate and applying an appropriate credit spread.

Valuation techniques that rely to a greater extent on non-observable data require a higher level of management judgement to calculate a fair value than those based wholly on observable data.

The choice of contributors, the quality of market data used for pricing, and the valuation techniques used are all subject to internal review and approval procedures. Given the uncertainty and subjective nature of valuing financial instruments at fair value, any change in these variables could give rise to the financial instruments being carried at a different valuation, with a consequent impact on shareholders' equity and, in the case of derivatives, the income statement.

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 Group provides a number of defined benefit and defined contribution retirement benefit schemes in various geographic locations, the majority of which are funded. All defined benefit schemes were closed to future accrual with effect from 31 December 2013.

Scheme assets are valued at fair value. Scheme liabilities are measured on an actuarial basis, using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

In calculating the scheme liabilities, the Directors have chosen a number of financial and demographic assumptions within an acceptable range, under advice from the Group's Actuary which include price inflation, pensions in payment increases and the longevity of scheme members. The impact on the income statement, other comprehensive income and statement of financial position could be materially different if a different set of assumptions were used.

In 2017 the Board, having taken actuarial and external legal advice, determined that the funding of discretionary increases in pensions in payment is a decision to be made by the Board annually for the Group's main Irish schemes. A process, taking account of all relevant interests and factors has been implemented by the Board. These interests and factors include the advice of the Actuary; the interests of the members of the scheme; the interests of the employees; the Group's financial circumstances and ability to pay; the views of the Trustees; the Group's commercial interests and any competing obligations to the State.

In early 2017, the Board implemented this process and made a decision not to provide any funding for any discretionary increases in pensions in payment for 2017. In 2018, under this process, the Group agreed to provide a level of funding for increases in pensions in payment for 2018. The Trustees of certain Irish schemes awarded an increase in the range of 0.35% to 0.50% in respect of pensions eligible for discretionary pension increases. The Group completed the same process early in 2019 taking account of all relevant factors and decided that funding of discretionary increases to pensions in payment was appropriate for 2019 to enable the Trustees to grant an increase of 0.50%.

The above process is a formal annual process that is carried out on a standalone basis. Therefore, no constructive obligation is being created on behalf of scheme members with regard to future funding of increases in pensions in payment. Accordingly, the assumption for long term rate of increases in pensions in payment is nil.

The assumptions adopted for the Group's defined benefit schemes are set out in note 34 to the financial statements, together with a sensitivity analysis of the schemes' liabilities to changes in those assumptions.

Provisions for liabilities and commitments

The Group's accounting policy for provisions for liabilities and commitments is set out in accounting policy number (aa) 'Non-credit risk provisions' in note 1.

The Group recognises liabilities where it has present legal or constructive obligations as a result of past events and it is more likely than not that these obligations will result in an outflow of resources to settle the obligations and the amount can be reliably estimated. Details of the Group's liabilities and commitments are shown in note 40 to the financial statements.

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. This process will, of its nature, require significant management judgement and will require revisions to earlier judgements and estimates as matters progress towards resolution. 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.

As detailed in notes 40 and 48, 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 addition, litigation has been served on the Group by customers that are pursuing claims in relation to tracker mortgages. Further cases may be served in the future in relation to tracker mortgages. It is not practicable at this time to predict the final outcome of these investigations and litigation, nor the timing and possible impact, including any monetary penalties, on the Group. Accordingly, the Group has not made a provision at this stage in relation to these matters.

3 Transition to IFRS 9

(a) Summary

On 1 January 2018, the Group implemented the requirements of IFRS 9 *Financial Instruments*, a new accounting standard, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. In addition, the Group early adopted a narrow scope amendment to IFRS 9 titled *'Prepayment features with Negative Compensation'* which was endorsed by the European Union in March 2018.

As permitted by IFRS 9, the Group did not restate prior periods on initial application, accordingly, any difference arising between IAS 39 carrying amounts and IFRS 9 carrying amounts at 1 January 2018 are recognised in opening retained earnings (or in other comprehensive income, as applicable) at 1 January 2018.

The information set out in this note provides details relevant to understanding the impact of IFRS 9 on the Group's financial position at 1 January 2018 and has been prepared in accordance with the requirements for initial application of IFRS 9 as set out in IFRS 7 *Financial Instruments: Disclosures.* These transition disclosures provide a point-in-time bridge between IAS 39 *Financial Instruments: Recognition and Measurement,* IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IFRS 9 *Financial Instruments* results and should be read in conjunction with the IFRS 9 related accounting policies set out in note 1 Accounting policies and the credit impairment measurement, methodologies and judgements set out on pages 85 to 92.

IFRS 9 impacts the accounting for financial instruments in the following areas:

Classification and measurement – the classification of financial assets under IFRS 9 determines how they are accounted for and how they are measured on an ongoing basis. This did not result in any significant changes for the Group at initial recognition.

Impairment – IFRS 9 introduces an expected credit loss model that requires recognition of expected credit losses on all financial assets measured at amortised cost or at FVOCI. This resulted in an overall increase of € 312 million in loss allowances for the Group.

Hedge accounting – IFRS 9 introduces an approach that aligns hedge accounting more closely with risk management. This had no impact for the Group as it is exercising a policy choice, as permitted by IFRS 9, to continue hedge accounting under IAS 39. However, the Group is providing the revised hedge accounting disclosures required by the amendments to IFRS 7.

The opening statement of financial position at 1 January 2018 under IFRS 9 is set out on page 270. This shows a decrease in net assets of € 267 million with a corresponding decrease in shareholders' equity driven by credit impairment provisions on loans and advances amounting to € 272 million and credit impairment provisions for liabilities and commitments amounting to € 36 million, net of related deferred tax amounting to € 41 million.

In particular, the following table reconciles impairment provisions (specific and IBNR) under IAS 39 and provisions for loan commitments and financial guarantee contracts under IAS 37 at 31 December 2017 to the opening loss allowance determined in accordance with IFRS 9 at 1 January 2018.

	31 December 2017			1 January 2018
	Impairment allowance under IAS 39 or provision under IAS 37	Reclassification impact	Additional IFRS 9 loss allowance	Loss allowance under IFRS 9
Impairment allowance	€ m	€ m	€ m	€ m
Loans and advances to customers at amortised cost	**3,345**	–	271	3,616
Loans and advances to banks at amortised cost	–	–	1	1
Available for sale investments, financial investments at FVOCI[1]	–	–	4	4
Undrawn commitments and financial guarantee contracts	**32**	–	36	68
Total	**3,377**	–	312	3,689

[1]Impairment allowance does not impact overall reserves as this is a transfer between investment securities reserves and revenue reserves.

3 Transition to IFRS 9 *(continued)*

(a) Summary

The following table presents a reconciliation of gross loans and advances to customers at amortised cost together with impairment provisions under IAS 39 to gross loans and advances to customers at amortised cost together with loss allowances, analysed by staging under IFRS 9.

	At 31 December 2017 IAS 39	IFRS 9 transition adjustments		At 1 January 2018
		Reclassified	Remeasured	Total
	€ m	€ m	€ m	€ m
Gross loans and advances to customers	63,338	(156)[1]	–	63,182
Impairment provisions/loss allowance	(3,345)	–	(271)	(3,616)
Carrying amount	59,993	(156)	(271)	59,566

[1]Reclassified to FVTPL (see page 275).

	At 1 January 2018 IFRS 9				
	Stage 1	Stage 2	Stage 3	POCI	Total
	€ m	€ m	€ m	€ m	€ m
Gross loans and advances to customers	46,021	7,912	9,011	238	63,182
Impairment provisions/loss allowance	(156)	(303)	(3,136)	(21)	(3,616)
Carrying amount	45,865	7,609	5,875	217	59,566
	%	%	%	%	%
Loss allowance coverage rate	0.34	3.83	34.8	8.82	5.72

(b) Principal impacts of IFRS 9

This section details the principal impacts of IFRS 9 in relation to classification and measurement, impairment and hedge accounting.

(i) Classification and measurement

The classification of financial assets under IFRS 9 determines how they are accounted for, and, in particular, how they are measured on an ongoing basis.

– Financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics. The classification and measurement categories are amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL");
– A financial asset is measured at amortised cost if two criteria are met: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI");
– If a financial asset is eligible for amortised cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch;
– Interest is calculated on the gross carrying amount of a financial asset, except where the asset is credit impaired in which case interest is calculated on the carrying amount after deducting the loss allowance;
– There is no separation of an embedded derivative where the instrument is a financial asset;
– Investment in equity instruments must be measured at fair value, however, an entity can elect on initial recognition to present fair value changes, including any related foreign exchange component on non-trading equity investments directly in other comprehensive income. There is no subsequent recycling of fair value gains and losses to profit or loss, however, dividends from such investments will continue to be recognised in profit or loss;
– The classification of financial liabilities is essentially unchanged, except that, for certain liabilities measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in other comprehensive income.

Classification and measurement of financial assets did not result in any significant changes for the Group. In general:
– loans and advances to banks and customers that were classified as 'loans and receivables' under IAS 39 are measured at amortised cost under IFRS 9;
– debt securities classified as available for sale under IAS 39 are measured at FVOCI; and

3 Transition to IFRS 9 *(continued*

(b) Principal impacts of IFRS 9

– equity investments will continue to be measured at fair value, however, for one equity instrument held for strategic purposes (NAMA subordinated bonds with a fair value of € 466 million), the Group elected to present changes in fair value in other comprehensive income with no recycling to profit or loss. All other equity investments held at 1 January 2018 are now measured under IFRS 9 at FVTPL. Under IAS 39, all equity investments, apart from a small number held in the trading book, were classified as available for sale with fair value movements reported in 'other comprehensive income'.

The business model assessment which was carried out did not result in any change to the current measurement basis at the Group level.

In relation to SPPI testing which was carried out on the financial instruments portfolio, a small number of loans and advances to customers failed the SPPI test. Accordingly, such instruments are measured at FVTPL in accordance with IFRS 9. Fair value movements on these instruments will be shown in profit or loss. There was no impact on the carrying value on transition to this new measurement basis.

The Group has not currently opted to designate any financial assets at FVTPL as permitted by IFRS 9 when certain conditions are met. The Group's classification of financial liabilities is unchanged. The Group measures financial liabilities at amortised cost subsequent to initial recognition. Given that the Group does not fair value its own debt, there is no impact as a result of changes required under IFRS 9.

The Group has set up governance structures for the ongoing validation of its business models and for ensuring that financial instruments failing the SPPI test are correctly identified at initial recognition.

(ii) Impairment

IFRS 9 introduces a new impairment model that requires the recognition of expected credit losses on all financial assets measured at amortised cost or at FVOCI. Expected credit losses on certain loan commitments and on financial guarantee contracts together with lease receivables are also covered by this new impairment model. Under IAS 39, impairment losses were compiled on an 'incurred loss' basis where there was objective evidence of impairment. In particular, IFRS 9:

– Requires more timely recognition of expected credit losses using a three stage approach. For financial assets where there has been no significant increase in credit risk since origination, an allowance for 12 months expected credit losses is required. For financial assets where there has been a significant increase in credit risk or where the asset is credit impaired, an allowance for lifetime expected losses is required;
– The assessment of whether credit risk has increased significantly since origination is performed for each reporting period by considering the change in risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in expected credit losses;
– The assessment of credit risk, and the estimation of expected credit losses, are required to be unbiased and probability-weighted. They should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of expected credit losses should take into account the time value of money. As a result, the recognition and measurement of impairment is now more forward looking unlike IAS 39 and the resulting credit impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of credit loss allowances, since all financial assets will be assessed for at least 12 month expected credit losses and the population of financial assets to which lifetime expected credit losses apply is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

The impact of IFRS 9 on credit loss allowances is set out below. The credit impairment measurement, methodologies and judgements applied are set out in the 'Risk management' section of this report on pages 85 to 92.

(iii) Hedge accounting

IFRS 9 introduces an approach that aligns hedge accounting more closely with risk management. It makes some fundamental changes to the requirements under IAS 39 by removing or amending some of the key prohibitions and rules. However, many of these changes are more relevant to non-financial corporations.

The general hedge accounting requirements of IFRS 9 aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The standard does not explicitly address macro hedge accounting strategies, which are being considered in a separate project. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting until macro hedge accounting is addressed by the IASB as part of a separate project.

AIB Group is exercising this policy choice and will continue to account under IAS 39. However, it has implemented the revised hedge accounting disclosures required by the amendments to IFRS 7.

Notes to the consolidated financial statements

3 Transition to IFRS 9 *(continued)*

(c) Financial statement impacts at 1 January 2018

This section sets out: the opening statement of financial position; the impact of classification and measurement on the Group's financial assets; an impairment reconciliation; and revenue reserves and other components of equity reconciliations at 1 January 2018.

(i) Opening statement of financial position

The following table reconciles the statement of financial position under IAS 39 at 31 December 2017 to that under IFRS 9 at 1 January 2018.

	31 December 2017 (IAS 39) € m	Impact of IFRS 9 Classification[1] and measurement € m	Loss allowance € m	Tax € m	1 January 2018 (IFRS 9) € m
Assets					
Cash and balances at central banks	6,364	–	–	–	6,364
Items in the course of collection	103	–	–	–	103
Disposal groups and non-current assets held for sale	8	–	–	–	8
Trading portfolio financial assets	33	–	–	–	33
Derivative financial instruments	1,156	–	–	–	1,156
Loans and advances to banks	1,313	–	(1)	–	1,312
Loans and advances to customers	59,993	–	(271)	–	59,722
Investment securities	16,321	–	–	–	16,321
Interests in associated undertakings	80	–	–	–	80
Intangible assets	569	–	–	–	569
Property, plant and equipment	321	–	–	–	321
Other assets	418	–	–	–	418
Current taxation	5	–	–	–	5
Deferred tax assets	2,736	–	–	53	2,789
Prepayments and accrued income	459	–	–	–	459
Retirement benefit assets	183	–	–	–	183
Total assets	90,062	–	(272)	53	89,843
Liabilities					
Deposits by central banks and banks	3,640	–	–	–	3,640
Customer accounts	64,572	–	–	–	64,572
Trading portfolio financial liabilities	30	–	–	–	30
Derivative financial instruments	1,170	–	–	–	1,170
Debt securities in issue	4,590	–	–	–	4,590
Current taxation	68	–	–	–	68
Deferred tax liabilities	97	–	–	12	109
Retirement benefit liabilities	87	–	–	–	87
Other liabilities	824	–	–	–	824
Accruals and deferred income	348	–	–	–	348
Provisions for liabilities and commitments	231	–	36	–	267
Subordinated liabilities and other capital instruments	793	–	–	–	793
Total liabilities	76,450	–	36	12	76,498
Equity					
Share capital	1,697	–	–	–	1,697
Reserves	11,421	–	(308)	41	11,154
Total shareholders' equity	13,118	–	(308)	41	12,851
Other equity interests	494	–	–	–	494
Total equity	13,612	–	(308)	41	13,345
Total liabilities and equity	90,062	–	(272)	53	89,843

[1]For classifications within captions, see page 271.

3 Transition to IFRS 9 *(continued)*

(c) Financial statement impacts at 1 January 2018

(ii) Financial assets - Classification and measurement

The following table summarises the impact of classification and measurement on the Group's financial assets at 1 January 2018.

				2018
Financial assets	Original measurement category determined in accordance with IAS 39 at 31 December 2017	New measurement category determined in accordance with IFRS 9 at 1 January 2018	Carrying amount determined in accordance with IAS 39 at 31 December 2017 € m	Carrying amount determined in accordance with IFRS 9 at 1 January 2018 € m
Cash and balances at central banks	Loans and receivables	Amortised cost	6,364	6,364
Items in course of collection	Loans and receivables	Amortised cost	103	103
Trading portfolio financial assets	FVTPL	FVTPL (mandatory)	33	33
Derivative financial instruments	Fair value	FVTPL (mandatory)	738	738
	Fair value	FVOCI	418	418
Loans and advances to banks	Loans and receivables	Amortised cost	1,313	1,312
Loans and advances to customers	Loans and receivables	Amortised cost	59,993	59,566
	Loans and receivables	FVTPL (mandatory)	–	156
Investment securities – debt	Available for sale	FVOCI	15,642	15,642
Investment securities – equity	Available for sale	FVOCI	679	466
	Available for sale	FVTPL (mandatory)	–	213
Other financial assets	Amortised cost	Amortised cost	736	736
Total financial assets			**86,019**	**85,747**

There were no changes in the classification of financial liabilities.

3 Transition to IFRS 9 *(continued)*

(c) Financial statement impacts at 1 January 2018

(iii) Impairment reconciliation

The following table reconciles the closing impairment provision (recognised in accordance with IAS 39) and any provision for loan commitments and financial guarantee contracts (recognised in accordance with IAS 37) as at 31 December 2017 to the opening ECL allowance (in accordance with IFRS 9) as at 1 January 2018:

Financial assets at amortised cost	Impairment provision at 31 December 2017 (IAS 39) € m	Reclassification € m	Remeasurement € m	ECL 1 January 2018 (IFRS 9) € m
Cash and balances at central banks	–	–	–	–
Items in the course of collection	–	–	–	–
Loans and advances to banks	–	–	1	1
Loans and advances to customers	3,345	–	271	3,616
	3,345	–	272	3,617

Provisions for liabilities and commitments	Impairment provision at 31 December 2017 (IAS 37) € m	Reclassification € m	Remeasurement € m	ECL 1 January 2018 (IFRS 9) € m
Loan commitments and financial guarantees issued	32	–	36	68

Recognised in statement of financial position as:	At 31 December 2017 € m	Reclassification € m	Remeasurement € m	At 1 January 2018 € m
Impairment provision/ECL allowance - IAS 39/IFRS 9	3,345	–	272	3,617
Provision for liabilities and commitments - IAS 37/IFRS 9	32	–	36	68
	3,377	–	308	3,685

For financial assets at FVOCI, the expected credit loss provision does not impact overall reserves, however, it results in a transfer between investments securities reserves and revenue reserves on transition.

At FVOCI	Impairment provision at 31 December 2017 (IAS 39) € m	ECL 1 January 2018 (IFRS 9) € m
Investment securities at FVOCI	–	4

3 Transition to IFRS 9 *(continued)*

(c) Financial statement impacts at 1 January 2018

(iv) Revenue reserves and other components of equity reconciliations

The following table sets out the impact of applying IFRS 9 on opening revenue reserves and other components of equity as at 1 January 2018:

	Gross € m	Taxation € m	Net € m
Available for sale securities reserves			
Closing balance at 31 December 2017 (IAS 39)	1,126	(145)	981
Reclassification to revenue reserves	(24)	4	(20)
Reclassification to investment securities reserves	(1,102)	141	(961)
Opening balance at 1 January 2018 (IFRS 9)	–	–	–

Investment securities reserves	Gross € m	Taxation € m	Net € m
Closing balance at 31 December 2017	–	–	–
Reclassification from available for sale reserves (IAS 39) – debt at FVOCI	679	(88)	591
Reclassification from available for sale (IAS 39) – equity at FVOCI	423	(53)	370
	1,102	(141)	961
Recognition of expected credit losses investment securities – debt at FVOCI	4	–	4
Opening balance at 1 January 2018 (IFRS 9)	1,106	(141)	965

Revenue reserves	Gross € m	Taxation € m	Net € m
Closing balance at 31 December 2017 (IAS 39)			13,249
Reclassification from available for sale reserves (IAS 39) – equities at FVTPL	24	(4)	20
Recognition of expected credit losses for loans and advances to customers at amortised cost	(271)	37	(234)
Recognition of expected credit losses for loans and advances to banks at amortised cost	(1)	–	(1)
Recognition of expected credit losses for loan commitments	(16)	2	(14)
Recognition of expected credit losses for financial guarantee contracts	(20)	2	(18)
Recognition of expected credit losses for investment securities – debt at FVOCI	(4)	–	(4)
	(288)	37	(251)
Opening balance at 1 January 2018 (IFRS 9)			12,998
IFRS 9 transition adjustment to total reserves at 1 January 2018	(308)	41	(267)

3 Transition to IFRS 9 *(continued)*

(d) Analysis of financial instruments by staging

This section provides detailed analysis of: exposures within the scope of the ECL framework by balance sheet caption and staging; loans and advances to customers by asset class and staging; off-balance sheet commitments by staging; loans and advances to customers by segment and staging; and forbearance by staging.

(i) Exposures within the scope of the ECL framework by balance sheet caption and staging

The following table analyses exposures within the scope of IFRS 9 including off-balance sheet commitments and guarantees. Exposures are shown gross of ECL.

Items outside the scope of the ECL framework such as cash and items in the course of collection are excluded from this table as it is the Group policy not to calculate an ECL for such items as they have a low risk of default with a very low risk profile. In addition, equity investments have been excluded as they are outside the scope of the ECL framework.

					1 January 2018
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Loans and advances to banks	1,313	–	–	–	1,313
Loans and advances to customers	46,021	7,912	9,011	238	63,182
Investment securities - debt	15,642	–	–	–	15,642
Other assets	–	–	–	–	–
Total assets	62,976	7,912	9,011	238	80,137
Undrawn commitments and financial guarantee contracts	10,353	326	432	–	11,111
Total exposure	73,329	8,238	9,443	238	91,248

For additional analysis of loans and advances to customers and of off-balance sheet commitments, see note 3(d)(ii) to 3(d)(v) below.

3 Transition to IFRS 9 *(continued)*

(d) Analysis of financial instruments by staging

(ii) Loans and advances to customers by asset class

The following table reconciles the carrying amount for loans and advances to customers in accordance with IAS 39 as at 31 December 2017 to the carrying amount in accordance with IFRS 9 as at 1 January 2018. Loans and advances to customers measured at amortised cost have been analysed as to ECL staging:

Measured at amortised cost

Gross carrying amount

		Impact of adopting IFRS 9			1 January 2018 Analysed as to:					31 December 2017 Of which impaired under IAS 39		
Gross carrying amount by asset class	At 31 December 2017 IAS 39 € m	Reclassifi– cations € m	Remeasure– ment	At 1 January 2018 – IFRS 9 € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Indivi- dually assessed € m	Collect- ively assessed € m	Total € m
Residential mortgages	33,720	–	–	33,720	23,857	5,175	4,453	235	33,720	978	2,315	3,293
Other personal	3,122	–	–	3,122	2,296	358	468	–	3,122	228	134	362
Property and construction	8,820	(156)	–	8,664	5,375	782	2,505	2	8,664	1,685	118	1,803
Non property business	17,676	–	–	17,676	14,493	1,597	1,585	1	17,676	683	189	872
Total	63,338	(156)	–	63,182	46,021	7,912	9,011	238	63,182	3,574	2,756	6,330

Loss allowance

		Impact of adopting IFRS 9 on loss allowance			1 January 2018 Analysed as to:					31 December 2017 Impairment provisions under IAS 39		
Loss allowance by asset class	At 31 December 2017 – Specific and IBNR provisions – IAS 39 € m	Reclassifi– cations € m	Remeasure– ment € m	At 1 January 2018 – IFRS 9 € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Specific provisions € m	IBNR provisions € m	Total € m
Residential mortgages	(1,418)	–	27	(1,391)	(12)	(95)	(1,263)	(21)	(1,391)	(1,135)	(283)	(1,418)
Other personal	(246)	–	(83)	(329)	(26)	(50)	(253)	–	(329)	(203)	(43)	(246)
Property and construction	(1,064)	–	(42)	(1,106)	(43)	(43)	(1,020)	–	(1,106)	(914)	(150)	(1,064)
Non property business	(617)	–	(173)	(790)	(75)	(115)	(600)	–	(790)	(470)	(147)	(617)
Total	(3,345)	–	(271)	(3,616)	(156)	(303)	(3,136)	(21)	(3,616)	(2,722)	(623)	(3,345)
Measured at amortised cost carrying amount	59,993	(156)	(271)	59,566	45,865	7,609	5,875	217	59,566			
Measured at FVTPL carrying amount												
Property and construction	–	156	–	156								
Total carrying amount	59,993	–	(271)	59,722								

Notes to the consolidated financial statements

3 Transition to IFRS 9 *(continued)*

(d) Analysis of financial instruments by staging

(iii) Off-balance sheet commitments

The following table analyses the nominal amount of off-balance sheet commitments and the opening loss allowance at 1 January 2018:

	Off-balance sheet commitments			Analysed as to:			
	At 31 December 2017 € m	Impact of adopting IFRS 9 € m	At 1 January 2018 € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m
Nominal amount	11,111	–	11,111	10,353	326	432	–

	Loss allowance			Analysed as to:			
	At 31 December 2017 € m	Impact of adopting IFRS 9 € m	At 1 January 2018 € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m
Loss allowance	(32)	(36)	(68)	(11)	(10)	(47)	–

3 Transition to IFRS 9 *(continued)*

(d) Analysis of financial instruments by staging

(iv) Loans and advances to customers by segment

The following table reconciles gross loans and advances to customers and impairment provisions recognised in accordance with IAS 39 as at 31 December 2017 to gross loans and advances to customers and the expected credit loss allowance recognised in accordance with IFRS 9 as at 1 January 2018, by segment and by measurement category:

	At amortised cost					At FVTPL					
	RCB € m	WIB € m	AIB UK € m	Group € m	Total € m	RCB € m	WIB € m	AIB UK € m	Group € m	Total € m	Total € m
Gross carrying amount at 31 December 2017	44,435	10,322	8,523	58	63,338	–	–	–	–	–	63,338
Impact of adopting IFRS 9											
Reclassification	(63)	(93)	–	–	(156)	63	93	–	–	156	–
Remeasurement	–	–	–	–	–	–	–	–	–	–	–
At 1 January 2018 gross carrying amount/fair value	44,372	10,229	8,523	58	63,182	63	93	–	–	156	63,338
Analysed by staging	€ m	€ m	€ m	€ m	€ m						
Stage 1	29,784	9,933	6,247	57	46,021						
Stage 2	6,068	156	1,688	–	7,912						
Stage 3	8,282	140	588	1	9,011						
POCI	238	–	–	–	238						
	44,372	10,229	8,523	58	63,182						

Impairment provisions under IAS 39/expected credit loss allowance under IFRS 9

	At amortised cost					At FVTPL					
	RCB € m	WIB € m	AIB UK € m	Group € m	Total € m	RCB € m	WIB € m	AIB UK € m	Group € m	Total € m	Total € m
At 31 December 2017											
Specific provisions	(2,488)	(2)	(232)	–	(2,722)						(2,722)
IBNR provisions	(525)	(45)	(53)	–	(623)						(623)
Total impairment provisions under IAS 39	(3,013)	(47)	(285)	–	(3,345)						(3,345)
Impact of adopting IFRS 9											
Reclassification	–	–	–	–	–	–	–	–	–	–	–
Remeasurement	(245)	2	(27)	(1)	(271)	–	–	–	–	–	(271)
At 1 January 2018 Expected credit loss allowance under IFRS 9	(3,258)	(45)	(312)	(1)	(3,616)	–	–	–	–	–	(3,616)
Analysed by staging	€ m	€ m	€ m	€ m	€ m						
Stage 1	(105)	(23)	(27)	(1)	(156)						
Stage 2	(260)	(11)	(32)	–	(303)						
Stage 3	(2,872)	(11)	(253)	–	(3,136)						
POCI	(21)	–	–	–	(21)						
	(3,258)	(45)	(312)	(1)	(3,616)						
Net carrying amount at 1 January 2018	41,114	10,184	8,211	57	59,566	63	93	–	–	156	59,722

3 Transition to IFRS 9 *(continued)*

(d) Analysis of financial instruments by staging

(v) Forbearance

The following table sets out the gross carrying amount of loans and advances to customers at amortised cost and the related IAS 39 provision for impairment at 31 December 2017, and the impact of adopting IFRS 9 at 1 January 2018, analysed between forborne and non-forborne loans:

	Gross loans			Loss allowance			
					Impact of adopting IFRS 9		
	At 31 December 2017	Impact of adopting IFRS 9 reclassification	At 1 January 2018	At 31 December 2017	Reclassification	Remeasurement	At 1 January 2018
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Forborne	8,023	(72)	7,951	(1,283)	–	(182)	(1,465)
Non-forborne	55,315	(84)	55,231	(2,062)	–	(89)	(2,151)
Total	63,338	(156)	63,182	(3,345)	–	(271)	(3,616)

The following analyses the loans and advances to customers portfolio at 1 January 2018 by stage and between forborne and non-forborne loans:

									1 January 2018
	Gross loans			Loss allowance			Net carrying amount		
	Forborne	Non-forborne	Total	Forborne	Non-forborne	Total	Forborne	Non-forborne	Total
At amortised cost	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Stage 1	1,611	44,410	46,021	(39)	(117)	(156)	1,572	44,293	45,865
Stage 2	1,688	6,224	7,912	(80)	(223)	(303)	1,608	6,001	7,609
Stage 3	4,466	4,545	9,011	(1,328)	(1,808)	(3,136)	3,138	2,737	5,875
POCI	186	52	238	(18)	(3)	(21)	168	49	217
Total	7,951	55,231	63,182	(1,465)	(2,151)	(3,616)	6,486	53,080	59,566

The following analyses the loans and advances to customers portfolio at FVTPL at 1 January 2018 between forborne and non-forborne loans:

				Net carrying amount		
	At 31 December 2017	Impact of adopting IFRS 9 reclassification	At 1 January 2018	Forborne	Non-forborne	Total
At FVTPL	€ m	€ m	€ m	€ m	€ m	€ m
Carrying amount	–	156	156	72	84	156
Total loans and advances to customers				6,558	53,164	59,722

4 Segmental information

Segment overview

The Group was managed through the following business segments: Retail & Commercial Banking ("RCB"), Wholesale, Institutional & Corporate Banking ("WIB"), AIB UK and Group during 2018.

Segment allocations

The segments' performance statements include all income and direct costs but exclude certain overheads which are managed centrally the costs of which are included in the Group segment. Funding and liquidity 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 & Commercial Banking* ("RCB")

RCB is Ireland's leading provider of financial products and services based on its market shares across key products with approximately 2.4 million personal and SME customers. RCB offers retail banking services through three brands, AIB, EBS and Haven, and commercial banking services through the AIB brand. It has the largest physical distribution network of any bank in Ireland, comprising 295 locations as well as a partnership with An Post through which it offers certain banking services at approximately 1,000 locations in Ireland. Complementing its physical infrastructure, RCB is the leading digital bank in Ireland with over 1.38 million active digital customers and over nine hundred and forty thousand active mobile users with 73% of personal loans applied for online.

Wholesale, Institutional & Corporate Banking* ("WIB")

WIB provides wholesale, institutional and corporate banking services to the Group's larger customers and customers requiring specific sector or product expertise. WIB serves customers through a relationship driven model with a sector specialist focus comprising corporate banking, real estate finance, energy, climate action and infrastructure. In addition to traditional credit products, WIB offers corporate 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. WIB teams are based in Dublin and New York. WIB's activities in New York comprise syndicated and international finance activities.

AIB UK*

AIB UK offers retail and business banking services in two distinct markets, Northern Ireland, where it operates under the trading name of First Trust Bank, and Great Britain, where it operates as Allied Irish Bank (GB). AIB UK has just under three hundred and six thousand retail, corporate and business customers and over one hundred and twenty three thousand active digital customers.

First Trust Bank is a long established bank in Northern Ireland which now operates out of 15 branches including six co-located business centres and a centre for small and micro businesses. It provides full banking services, including mobile, online, post office and traditional banking, to business and personal customers.

Allied Irish Bank (GB) is a sector-led commercial and corporate bank, supporting businesses in Great Britain with 14 locations in key cities targeting mid-tier corporates in local geographies. Banking services include: lending; treasury; trade facilities; asset finance; invoice discounting and day-to-day transactional banking.

Group

The Group segment comprises wholesale treasury activities, Group control and support functions. Treasury manages the Group's liquidity and funding position and provides customer treasury services and economic research. The Group control and support functions include business and customer services, marketing, risk, compliance, audit, finance, legal, human resources and corporate affairs.

*Within the above segments, the Group has migrated the management of the vast majority of its non-performing loans to the Financial Solutions Group ("FSG"), a standalone dedicated workout unit which supports personal and business customers in financial difficulty, leveraging on FSG's well resourced operational capacity, workout expertise and skill set. FSG has developed a comprehensive suite of sustainable solutions for customers in financial difficulty.

Notes to the consolidated financial statements

4 Segmental information *(continued)*

	RCB € m	WIB € m	AIB UK € m	Group € m	Total € m	Bank levies and regulatory fees(1) € m	Exceptional items(2) € m	2018 Total € m
Operations by business segment								
Net interest income	1,346	312	254	188	2,100	–	–	2,100
Net fee and commission income*	336	36	58	27	457	–	–	457
Other	71	38	(7)	67	169	–	148	317
Other income	407	74	51	94	626	–	148(3)	774
Total operating income	1,753	386	305	282	2,726	–	148	2,874
Personnel expenses	(412)	(64)	(71)	(183)	(730)	–	(34)(4)(5)	(764)
General and administrative expenses	(252)	(35)	(49)	(244)	(580)	(82)	(235)(5)-(8)	(897)
Depreciation, impairment and amortisation	(86)	(1)	(1)	(50)	(138)	–	(24)	(162)
Total operating expenses	(750)	(100)	(121)	(477)	(1,448)	(82)	(293)	(1,823)
Operating profit before impairment losses and provisions	1,003	286	184	(195)	1,278	(82)	(145)	1,051
Bank levies and regulatory fees	–	–	1	(83)	(82)	82	–	–
Net credit impairment writeback/ (losses)	241	(16)	(21)	–	204	–	–	204
Operating profit/(loss)	1,244	270	164	(278)	1,400	–	(145)	1,255
Associated undertakings	10	–	2	–	12	–	–	12
Profit on disposal of property	–	–	2	–	2	–	–	2
Loss on disposal of business	–	–	–	–	–	–	(22)(9)	(22)
Profit before taxation from continuing operations	1,254	270	168	(278)	1,414	–	(167)	1,247

(1)In the consolidated financial statements, bank levies and regulatory fees are shown as part of general and administrative expenses. They are disclosed separately in the 'Operating and Financial Review' - see page 46.

(2)Exceptional and one-off items are shown separately above. These are items that Management view as distorting comparability of performance from period to period. Exceptional items include:

(3)Gain on disposal of financial instruments;
(4)Termination benefits;
(5)Restitution and restructuring costs;
(6)Property strategy costs;
(7)Customer redress;
(8)IFRS 9 and associated regulatory costs; and
(9)Loss on disposal of business activities.

For further information on these items see page 46.

*Analysis of net fee and commission income	RCB € m	WIB € m	AIB UK € m	Group € m	2018 Total € m
Retail banking customer fees	283	15	39	4	341
Foreign exchange fees	30	7	11	23	71
Credit related fees	8	15	14	4	41
Wealth and insurance commissions	47	–	–	(2)	45
Fee and commission income	368	37	64	29	498
Fee and commission expense	(32)	(1)	(6)	(2)	(41)
	336	36	58	27	457

Further information on 'Net fee and commission income' is set out in note 8.

4 Segmental information *(continued)*

	RCB € m	WIB € m	AIB UK € m	Group € m	Total € m	Bank levies and regulatory fees[1] € m	Exceptional items[2] € m	2017 Total € m
Operations by business segment								
Net interest income	1,435	267	238	236	2,176	–	–	2,176
Net fee and commission income*	305	34	48	4	391	–	–	391
Other	228	15	22	135	400	–	34	434
Other income	533	49	70	139	791	–	34[3]	825
Total operating income	1,968	316	308	375	2,967	–	34	3,001
Personnel expenses	(414)	(58)	(77)	(162)	(711)	–	(79)[4][5]	(790)
General and administrative expenses	(278)	(33)	(52)	(238)	(601)	(105)	(198)[5]-[9]	(904)
Depreciation, impairment and amortisation	(77)	–	(3)	(36)	(116)	–	(25)[5][9]	(141)
Total operating expenses	(769)	(91)	(132)	(436)	(1,428)	(105)	(302)	(1,835)
Operating profit/(loss) before impairment losses and provisions	1,199	225	176	(61)	1,539	(105)	(268)	1,166
Bank levies and regulatory fees	–	–	2	(107)	(105)	105	–	–
Writeback/(provisions) for impairment on loans and advances	133	(2)	(18)	–	113	–	–	113
Writeback/(provisions) for liabilities and commitments	10	(2)	–	–	8	–	–	8
Total writeback/(provisions)	143	(4)	(18)	–	121	–	–	121
Operating profit/(loss)	1,342	221	160	(168)	1,555	–	(268)	1,287
Associated undertakings and joint venture	14	2	3	–	19	–	–	19
(Loss)/profit on disposal of property	(1)	–	1	–	–	–	–	–
Profit/(loss) before taxation from continuing operations	1,355	223	164	(168)	1,574	–	(268)	1,306

[1]In the consolidated financial statements, bank levies and regulatory fees are shown as part of general and administrative expenses. They are disclosed separately in the 'Operating and Financial Review' - see page 46.

[2]Exceptional and one-off items are shown separately above. These are items that Management view as distorting comparability of performance from period to period. Exceptional items include:

[3]Gain on disposal of financial instruments;
[4]Termination benefits;
[5]Restitution and restructuring costs;
[6]IPO and capital related costs;
[7]Property strategy costs;
[8]Customer redress; and
[9]IFRS 9 costs

For further information on these items see page 46.

*Analysis of net fee and commission income	RCB € m	WIB € m	AIB UK € m	Group € m	2017 Total € m
Retail banking customer fees	272	15	41	5	333
Foreign exchange fees	10	–	1	1	12
Credit related fees	9	20	12	1	42
Wealth and insurance commissions	48	–	1	–	49
Fee and commission income	339	35	55	7	436
Fee and commission expense	(34)	(1)	(7)	(3)	(45)
	305	34	48	4	391

Further information on 'Net fee and commission income' is set out in note 8.

Notes to the consolidated financial statements

4 Segmental information *(continued)*

Other amounts – statement of financial position

					31 December 2018
	RCB € m	**WIB € m**	**AIB UK € m**	**Group € m**	**Total € m**
Loans and advances to customers:					
– measured at amortised cost	**39,698**	**12,620**	**8,303**	**100**	**60,721**
– measured at FVTPL	**50**	**97**	**–**	**–**	**147**
Total loans and advances to customers	**39,748**	**12,717**	**8,303**	**100**	**60,868**
Customer accounts	**50,326**	**5,734**	**9,911**	**1,728**	**67,699**

					1 January 2018
	RCB € m	WIB € m	AIB UK € m	Group € m	Total € m
Loans and advances to customers					
– measured at amortised cost	41,114	10,184	8,211	57	59,566
– measured at FVTPL	63	93	–	–	156
Total loans and advances to customers	41,177	10,277	8,211	57	59,722
Customer accounts	46,552	5,654	10,182	2,184	64,572

					31 December 2017
	RCB € m	WIB € m	AIB UK € m	Group € m	Total € m
Loans and advances to customers	41,422	10,275	8,238	58	59,993
Customer accounts	46,552	5,654	10,182	2,184	64,572

				Year to 31 December 2018
Geographic information - continuing operations[(1)(2)]	**Republic of Ireland € m**	**United Kingdom € m**	**Rest of the World € m**	**Total € m**
Gross external revenue	**2,528**	**329**	**17**	**2,874**
Inter-geographical segment revenue	**26**	**(18)**	**(8)**	**–**
Total revenue	**2,554**	**311**	**9**	**2,874**

				Year to 31 December 2017
Geographic information - continuing operations[(1)(2)]	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
Gross external revenue	2,621	374	6	3,001
Inter-geographical segment revenue	27	(24)	(3)	–
Total revenue	2,648	350	3	3,001

Revenue from external customers comprises interest income (note 5) and interest expense (note 6) and all other items of income (notes 7 to 12).

				31 December 2018
Geographic information	**Republic of Ireland € m**	**United Kingdom € m**	**Rest of the World € m**	**Total € m**
Non-current assets[(3)]	**951**	**60**	**1**	**1,012**

				31 December 2017
Geographic information	Republic of Ireland € m	United Kingdom € m	Rest of the World € m	Total € m
Non-current assets[(3)]	844	45	1	890

[(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 of this report.

[(3)]Non-current assets comprise intangible assets and property, plant and equipment.

5 Interest and similar income

	2018 € m	2017 € m
Interest on loans and advances to customers at amortised cost	**2,005**	2,099[1]
Interest on loans and advances to banks at amortised cost	**33**	16
Interest on NAMA senior bonds at amortised cost	**–**	2
Interest on investment securities at FVOCI/financial investments available for sale	**226**	154
Interest on financial investments held to maturity	**–**	130
	2,264	2,401
Negative interest on financial liabilities at amortised cost	**25**	13
Interest income calculated using the effective interest method	**2,289**	2,414
Interest income on finance leases and hire purchase contracts	**71**	67
Interest income on financial assets at FVTPL	**6**	–
Other interest income and similar income	**77**	67
Total interest and similar income	**2,366**	2,481

[1]Includes additional interest income of € 61 million on loans cured without financial loss.

Interest income includes a credit of € 143 million (2017: a credit of € 191 million) transferred from other comprehensive income in respect of cash flow hedges which is included in 'Interest on loans and advances to customers'.

The Group presents interest resulting from negative effective interest rates on financial liabilities as interest income rather than as offset against interest expense.

In 2017, interest income recognised on impaired loans amounted to € 100 million.

6 Interest expense

	2018 € m	2017 € m
Interest on deposits by central banks and banks	**21**	8
Interest on customer accounts	**157**	229
Interest on debt securities in issue	**45**	33
Interest on subordinated liabilities and other capital instruments	**32**	31
	255	301
Negative interest on financial assets at amortised cost	**11**	4
Interest expense calculated using the effective interest method	**266**	305

Interest expense includes a charge of € 56 million (2017: a charge of € 72 million) transferred from other comprehensive income in respect of cash flow hedges which is included in 'Interest on customer accounts'.

Interest expense reported above, calculated using the effective interest method, relates to financial liabilities not carried at fair value through profit or loss.

The Group presents interest resulting from negative effective interest rates on financial assets as interest expense rather than as offset against interest income.

7 Dividend income

	2018 € m	2017 € m
NAMA subordinated bonds at FVOCI	**23**	25
Equity investments at FVOCI	**–**	3
Equity investments at FVTPL	**3**	–
Total	**26**	28

Notes to the consolidated financial statements

8 Net fee and commission income

	2018 € m	2017 € m
Retail banking customer fees[(1)(2)]	341	370
Foreign exchange fees[(1)]	71	–
Credit related fees	41	41
Wealth and insurance commissions[(2)]	45	25
Fee and commission income	498	436
Fee and commission expense[(3)]	(41)	(45)
	457	391

[(1)]Customer related foreign exchange income amounting to € 58 million was reported as 'Net trading income' (note 9) at 31 December 2017 and customer related foreign exchange branch commissions amounting to € 13 million were reported as 'Retail banking customer fees' at 31 December 2017. These are both now reported as foreign exchange fees.

[(2)]Wealth and insurance commissions at 31 December 2018 include commissions amounting to € 25 million received from the sale of wealth products which at 31 December 2017 amounted to € 28 million and were reported under 'Retail banking customer fees'.

[(3)]Fee and commission expense includes credit card commissions of € 25 million (2017: € 29 million) and ATM expenses of € 5 million (2017: € 5 million).

Fees and commissions which are an integral part of the effective interest rate are recognised as part of interest income (note 5) or interest expense (note 6).

9 Net trading income

	2018 € m	2017 € m
Foreign exchange contracts[(1)]	(12)	56
Interest rate contracts and debt securities[(2)]	24	48
Credit derivative contracts	2	(4)
Equity investments, index contracts and warrants[(3)]	(9)	(3)
	5	97

[(1)]In the year to 31 December 2017, customer related foreign exchange fees amounting to € 58 million were reported at 'Net trading income'. This income is now reported in 'Net fee and commission income' (note 8).

[(2)]Includes a gain of € 8 million (2017: gain of € 21 million) in relation to XVA adjustments.

[(3)]Includes loss amounting to € 10 million on a total return swap, which is hedging equities measured at FVTPL. In 2017, this includes the mark to market loss of € 2 million on equity warrants.

The total hedging ineffectiveness on cash flow hedges reflected in the consolidated income statement amounted to Nil (2017: Nil).

10 Net gain on other financial assets measured at FVTPL

	2018 € m	2017 € m
Loans and advances to customers[(1)]	105	–
Investment securities – equity[(2)]	41	–
Total	146	–

[(1)]Excludes interest income (note 5).

[(2)]Includes unrealised gain of € 18 million on equities hedged by a trading total return swap.

11 Net gain on derecognition of financial assets measured at amortised cost

				2018
	Carrying value at derecognition € m	Gain on derecognition € m	Loss on derecognition € m	Net gain on derecognition € m
Loans and advances to customers	781	200[1]	(79)[1]	121

[1]Gain and loss on derecognition have been computed at a customer connection level.

The net gain on derecognition arose from the disposal of loans and advances to customers.

	2017 € m
Profit on disposal of loans and advances to customers	31
Provision writeback on NAMA loan transfers	1
Total	32

12 Other operating income

	2018 € m	2017 € m
Gain on disposal of investment securities at FVOCI – debt	24	18
Loss on termination of hedging swaps[1]	(9)	(11)
Gain on disposal of available for sale equity investments	–	48[2]
Acceleration/re-estimation of the timing of cash flows on NAMA senior bonds	–	4
Realisation/re-estimation of cash flows on restructured loans	–	213
Miscellaneous operating income	4	5
	19	277

[1]The majority of the loss on termination of hedging swaps relates to the disposal of investment securities at FVOCI – debt. In addition, it includes a € 1 million charge transferred from other comprehensive income in respect of cash flow hedges (2017: € 1 million).

[2]Includes € 32 million gain on part disposal of NAMA subordinated bonds.

13 Administrative expenses

	2018 € m	2017 € m
Personnel expenses:		
Wages and salaries	587	587
Termination benefits[1]	21	70
Retirement benefits[2]	92	82
Social security costs	65	64
Other personnel expenses[3]	21	20
Total personnel expenses	786	823
Staff costs capitalised	(22)	(33)
Personnel expenses	764	790
General and administrative expenses:		
Bank levies and regulatory fees	82	105
Other general and administrative expenses	815	799
Total general and administrative expenses	897	904
	1,661	1,694

[1]In 2018, a charge of € 21 million (2017: € 70 million) was made to the consolidated income statement in respect of termination benefits arising from the voluntary severance programme in operation in the Group.

[2]Comprises a defined contribution charge of € 75 million (2017: a charge of € 75 million), a charge of € 8 million in relation to defined benefit expense (2017: a credit of € 1 million), and a long-term disability payments charge of € 9 million (2017: a charge of € 8 million). For details of retirement benefits, see note 34.

[3]Other personnel expenses include staff training, recruitment and various other staff costs.

The average number of employees for 2018 and 2017 is set out in note 56 'Employees'.

Notes to the consolidated financial statements

14 Share-based compensation schemes

Employees' Profit Sharing Scheme

The Group operates the 'AIB Approved Employees' Profit Sharing Scheme 1998' ('the Scheme') on terms approved by the shareholders at the 1998 Annual General Meeting. All employees, including executive directors of the Company and certain subsidiaries are eligible to participate, subject to minimum service periods and being in employment on the date on which an invitation to participate is issued.
The Directors, at their discretion, may set aside each year, for distribution under the Scheme, a sum not exceeding 5% of eligible profits of participating companies. No shares have been awarded under this Scheme since 2008.

Income statement expense

The expense arising from share-based payment transactions amounted to Nil for the year ended 31 December 2018 (2017: Nil).

15 Net credit impairment writeback

The following table analyses the income statement net credit impairment writeback/(losses) on financial instruments for the year to 31 December 2018.

			2018
Credit impairment writeback on financial instruments	**Measured at amortised cost € m**	**Measured at FVOCI € m**	**Total € m**
Net remeasurement of loss allowance			
Loans and advances to banks	1	–	1
Loans and advances to customers	89	–	89
Loan commitments	(9)	–	(9)
Financial guarantee contracts	3	–	3
Credit impairment writeback	84	–	84
Recoveries of amounts previously written-off	120	–	120
Net credit impairment writeback	204	–	204

	2017 € m
Writeback of provisions for impairment on loans and advances to customers	113

16 Profit on disposal of property

Profit on disposal of property amounted to € 2 million (2017: Nil).

17 Loss on disposal of business

Loss on disposal of business amounted to € 22 million (2017: Nil). This follows the repatriation of part of the capital of certain foreign subsidiaries in the Group which had ceased trading. A pro-rata amount of the related foreign currency cumulative translation reserve was transferred to the income statement.

18 Auditors' fees

The disclosure of auditors' fees is in accordance with Section 322 of the Companies Act 2014. This mandates disclosure of fees paid/payable to the Group Auditor only (Deloitte Ireland LLP) for services relating to the audit of the Group financial statements in the categories set out below. Both years presented are on that basis.

	2018 € m	2017 € m
Auditor's fees *(excluding VAT)*:		
Audit of Group financial statements	**2.6**	2.2
Other assurance services	**0.6**	5.6[(1)]
Other non-audit services	**1.1**	0.9
Taxation advisory services	**–**	–
	4.3	8.7

[(1)]This related to the applications for listing to the Main Securities Market of the Irish Stock Exchange/Euronext Dublin. All work was completed in 2017 and fees paid were included as part of 'Other assurance services'.

All the above amounts were paid to the Group Auditor for services provided to subsidiaries of the Group including Allied Irish Banks, p.l.c.

Other assurance services include fees for additional assurance issued by the firm outside of the audit of the statutory financial statements of the Group and subsidiaries. These fees include assignments where the Auditors, in Ireland, 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 Auditors for non-audit work.

The Board Audit Committee has reviewed the level of non-audit services fees and is satisfied that it has not affected the independence of the Auditors. It is Group policy to subject all large consultancy assignments to competitive tender, where appropriate.

The following table shows fees paid to overseas auditors (excluding Deloitte Ireland LLP):

	2018 € m	2017 € m
Auditors' fees excluding Deloitte Ireland LLP *(excluding VAT)*	**0.58**	0.41

19 Taxation

	2018 € m	2017 € m
AIB Group plc and subsidiaries		
Corporation tax in Republic of Ireland:		
Current tax on income for the year	(21)	(10)
Adjustments in respect of prior years	(3)	–
	(24)	(10)
Foreign tax		
Current tax on income for the year	(21)	(26)
Adjustments in respect of prior years	1	(4)
	(20)	(30)
	(44)	(40)
Deferred taxation		
Origination and reversal of temporary differences	(10)	(13)
Adjustments in respect of prior years	13	(2)
Reduction in carrying value of deferred tax assets in respect of carried forward losses	(114)	(137)
	(111)	(152)
Total tax charge for the year	(155)	(192)
Effective tax rate	12.4%	14.7%

Factors affecting the effective tax rate

The following table explains the difference between the tax charge that would result from applying the standard corporation tax rate in Ireland of 12.5% and the actual tax charge for the year:

	2018		2017	
	€ m	%	€ m	%
Profit before tax from continuing operations	1,247		1,306	
Tax charge at standard corporation tax rate in Ireland of 12.5%	(156)	12.5	(163)	12.5
Effects of:				
Foreign profits taxed at other rates	(8)	0.6	(10)	0.8
Expenses not deductible for tax purposes	(17)	1.4	(25)	1.8
Exempted income, income at reduced rates and tax credits	2	(0.2)	3	(0.2)
Share of results of associates shown post tax in the income statement	1	(0.1)	3	(0.2)
Income taxed at higher rates	(14)	1.1	(12)	0.9
Tax legislation on equity distributions – current and prior years	14	(1.1)	–	–
(Deferred tax assets not recognised)/reversal of amounts previously not recognised	11	(0.9)	18	(1.4)
Other differences	10	(0.7)	–	–
Adjustments to tax charge in respect of prior years	2	(0.2)	(6)	0.5
Tax charge	(155)	12.4	(192)	14.7

19 Taxation *(continued)*

Analysis of selected other comprehensive income

Continuing operations	2018 Gross €m	2018 Tax €m	2018 Net €m	2017 Gross €m	2017 Tax €m	2017 Net €m
Property revaluation reserves						
Net change in property revaluation reserves	–	–	–	–	–	–
Total	–	–	–	–	–	–
Retirement benefit schemes						
Actuarial gains in retirement benefit schemes	35	(9)	26	25	(1)	24
Total	35	(9)	26	25	(1)	24
Foreign currency translation reserves						
Foreign currency translation losses transferred to income statement	22	–	22	–	–	–
Change in foreign currency translation reserves taken to other comprehensive income	(12)	–	(12)	(53)	–	(53)
Total	10	–	10	(53)	–	(53)
Cash flow hedging reserves (IAS 39)						
Fair value (gains) transferred to income statement	–	–	–	(118)	16	(102)
Fair value (losses) taken to other comprehensive income	–	–	–	(116)	15	(101)
Total	–	–	–	(234)	31	(203)
Cash flow hedging reserves (IFRS 9)						
Amounts reclassed from 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*	(86)	10	(76)	–	–	–
Hedging gains or losses recognised in other comprehensive income	118	(14)	104	–	–	–
Total	32	(4)	28	–	–	–
Available for sale securities reserves (IAS 39)						
Fair value (gains) transferred to income statement	–	–	–	(66)	7	(59)
Fair value (losses) taken to other comprehensive income	–	–	–	(82)	9	(73)
Total	–	–	–	(148)	16	(132)
Investment debt securities at FVOCI reserves (IFRS 9)						
Fair value (gains) transferred to income statement	(24)	3	(21)	–	–	–
Fair value (losses) taken to other comprehensive income	(308)	38	(270)	–	–	–
Total	(332)	41	(291)	–	–	–
Investment equity securities measured at FVOCI reserves (IFRS 9)						
Fair value gains taken to other comprehensive income	2	–	2	–	–	–
Total	2	–	2	–	–	–

Notes to the consolidated financial statements

20 Earnings per share

The calculation of basic earnings per unit of ordinary shares is based on the profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue, excluding own shares held.

The diluted earnings per share is based on the profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue, excluding own shares held, adjusted for the effect of dilutive potential ordinary shares.

(a) Basic	2018 € m	2017 € m
Profit attributable to equity holders of the parent from continuing operations	1,092	1,114
Distributions on other equity interests *(note 21)*	(37)	(37)
Profit attributable to ordinary shareholders of the parent from continuing operations	1,055	1,077
	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the year	2,714.4	2,714.4
Earnings per share from continuing operations – basic	EUR 38.9c	EUR 39.7c

(b) Diluted	2018 € m	2017 € m
Profit attributable to ordinary shareholders of the parent from continuing operations (note 20 (a))	1,055	1,077
	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the year	2,714.4	2,714.4
Potential weighted average number of shares	2,714.4	2,714.4
Earnings per share from continuing operations - diluted	EUR 38.9c	EUR 39.7c

The ordinary shares are included in the weighted average number of shares on a time apportioned basis.

Warrants

Following the Initial Public Offering (“IPO”) and the Group’s admission on 27 June 2017 to the main markets for listed securities on the Irish Stock Exchange/Euronext Dublin and the London Stock Exchange, the Group issued warrants on 4 July 2017 to the Minister for Finance to subscribe for 271,166,685 ordinary shares of Allied Irish Banks, p.l.c.

This warrant agreement was replaced by a new warrant instrument (the “AIB Group plc Warrant Instrument”) pursuant to which the Minister for Finance was issued warrants to subscribe for AIB Group plc shares on the same terms and conditions as the Allied Irish Banks, p.l.c. warrants. The new warrant agreement with AIB Group plc became effective on 8 December 2017, i.e. upon the Scheme of Arrangement becoming effective (note 46). Allied Irish Banks, p.l.c. warrants were cancelled on this date.

The warrants are exercisable during the period commencing 27 June 2018 and ending 27 June 2027 (see note 42 for further detail). These warrants were not included in calculating the diluted earnings per share as they were antidilutive.

21 Distributions on equity shares and other equity interests

	2018 € m	2017 € m
Ordinary shares – dividends paid	**326**	250
Other equity interests – distributions	**37**	37

Final dividends are not accounted for until they have been approved at the Annual General Meeting of shareholders or in the case of interim dividends, when they become irrevocable having already been approved for payment by the Board of Directors. Interim dividends may be cancelled at any time prior to the actual payment.

On 25 April 2018, a final dividend of € 0.12 per ordinary share, amounting in total to € 326 million (2017: € 250 million), was approved at the Annual General Meeting of AIB Group plc and subsequently paid on 4 May 2018.

During 2018, distributions amounting to € 37 million were paid on the Additional Tier 1 securities (2017: € 37 million) (note 44).

22 Disposal groups and non-current assets held for sale

	2018 € m	2017 € m
Property and non-financial assets held for sale[1]	**10**	8
Total disposal groups and non-current assets held for sale	**10**	8

[1]Includes property surplus to requirements and repossessed assets.

23 Trading portfolio financial assets

	2018 € m	2017 € m
Investment debt securities	**–**	32
Equity investments	**–**	1
	–	33
Of which listed:		
Investment debt securities	**–**	32
Of which unlisted:		
Equity investments	**–**	1
	–	33

Notes to the consolidated financial statements

24 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 2018 and 2017:

	2018 € m	2017 € m
Interest rate contracts[(1)]		
Notional principal amount	**44,488**	53,465
Positive fair value	**848**	1,094
Negative fair value	**(901)**	(1,092)
Exchange rate contracts[(1)]		
Notional principal amount	**4,369**	4,882
Positive fair value	**38**	29
Negative fair value	**(24)**	(34)
Equity contracts[(1)]		
Notional principal amount	**479**	715
Positive fair value	**14**	33
Negative fair value	**(5)**	(35)
Credit derivatives[(1)]		
Notional principal amount	**355**	130
Positive fair value	**–**	–
Negative fair value	**(4)**	(9)
Total notional principal amount	**49,691**	59,192
Total positive fair value[(2)]	**900**	1,156
Total negative fair value	**(934)**	(1,170)

[(1)]Interest rate, exchange rate, equity and credit derivative contracts are entered into for both hedging and trading purposes.

[(2)]At 31 December 2018, 39% of fair value relates to exposures to banks (2017: 55%).

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.

24 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:

	2018				2017			
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	**11,843**	**18,694**	**19,154**	**49,691**	18,742	21,862	18,588	59,192
Positive fair value	**61**	**212**	**627**	**900**	141	326	689	1,156

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	
	2018 € m	2017 € m	2018 € m	2017 € m
Republic of Ireland	**47,366**	57,005	**547**	743
United Kingdom	**2,129**	1,938	**341**	398
United States of America	**196**	249	**12**	15
	49,691	59,192	**900**	1,156

Trading activities

The Group maintains trading positions in a variety of financial instruments including derivatives. These derivative financial instruments include interest rate, foreign exchange, equity and credit derivatives. Most of these positions arise as a result of activity generated by corporate customers while the remainder represent trading decisions of the Group's derivative and foreign exchange traders with a view to generating incremental income.

All trading activity is conducted within risk limits approved by the Board. Systems are in place which measure risks and profitability associated with derivative trading positions as market movements occur. Independent risk control units monitor these risks.

The risk that counterparties to derivative contracts might default on their obligations is monitored on an ongoing basis. The level of credit risk is minimised by dealing with counterparties of good credit standing, by the use of Credit Support Annexes and ISDA Master Netting Agreements and increased clearing of derivatives through Central Counterparties (CCPs). As the traded instruments are recognised at market value, any changes in market value directly affect reported income for a given period.

Risk management activities

In addition to meeting customer needs, the Group's principal objective in holding or transacting derivatives is the management of interest rate and foreign exchange risks which arise within the banking book through the operations of the Group as outlined below. Market risk within the banking book is also controlled through limits approved by the Board and monitored by an independent second line risk function.

The operations of the Group are exposed to interest rate risk arising from the fact that assets and liabilities mature or reprice at different times or in differing amounts. Derivatives are used to modify the repricing or maturity characteristics of assets and liabilities in a cost-efficient manner. This flexibility helps the Group to achieve interest rate risk management objectives. Similarly, foreign exchange derivatives can be used to hedge the Group's exposure to foreign exchange risk.

Derivative prices fluctuate in value as the underlying interest rate or foreign exchange rates change. If the derivatives are purchased or sold as hedges of statement of financial position items, the appreciation or depreciation of the derivatives will generally be offset by the unrealised depreciation or appreciation of the hedged items.

To achieve its risk management objectives, the Group uses a combination of derivative financial instruments, particularly interest rate swaps, cross currency interest rate swaps, forward rate agreements, futures, options and currency swaps, as well as other contracts. The notional principal and fair value amounts for instruments held for risk management purposes entered into by the Group at 31 December 2018 and 2017, are presented within this note.

24 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 2018 and 2017. A description of how the fair values of derivatives are determined is set out in note 52.

	2018			2017		
	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	**4,736**	**414**	**(446)**	6,180	507	(544)
Cross-currency interest rate swaps	**381**	**31**	**(31)**	373	27	(27)
Interest rate options bought and sold	**1,270**	**1**	**(1)**	391	–	–
Total interest rate derivatives – OTC	**6,387**	**446**	**(478)**	6,944	534	(571)
Interest rate derivatives – OTC – central clearing						
Interest rate swaps	**2,814**	**19**	**(23)**	1,855	17	(16)
Total interest rate derivatives – OTC – central clearing	**2,814**	**19**	**(23)**	1,855	17	(16)
Interest rate derivatives – exchange traded						
Interest rate futures bought and sold	**1,124**	**–**	**–**	7,474	–	–
Total interest rate derivatives – exchange traded	**1,124**	**–**	**–**	7,474	–	–
Total interest rate derivatives	**10,325**	**465**	**(501)**	16,273	551	(587)
Foreign exchange derivatives – OTC						
Foreign exchange contracts	**4,274**	**36**	**(24)**	4,852	29	(34)
Currency options bought and sold	**95**	**2**	**–**	30	–	–
Total foreign exchange derivatives	**4,369**	**38**	**(24)**	4,882	29	(34)
Equity derivatives – OTC						
Equity index options bought and sold	**376**	**5**	**(5)**	623	33	(33)
Equity total return swaps	**103**	**9**	**–**	–	–	–
Total equity derivatives	**479**	**14**	**(5)**	623	33	(33)
Credit derivatives – OTC						
Credit derivatives	**355**	**–**	**(4)**	130	–	(9)
Total credit derivatives	**355**	**–**	**(4)**	130	–	(9)
Total derivatives held for trading	**15,528**	**517**	**(534)**	21,908	613	(663)

24 Derivative financial instruments *(continued)*

	2018			2017		
	Notional principal amount	Fair values		Notional principal amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
	€ m	€ m	€ m	€ m	€ m	€ m
Derivatives held for hedging						
Derivatives designated as fair value hedges – OTC						
Interest rate swaps	**10,486**	**86**	**(176)**	11,740	92	(253)
Total derivatives designated as fair value hedges – OTC	**10,486**	**86**	**(176)**	11,740	92	(253)
Derivatives designated as fair value hedges – OTC – central clearing						
Interest rate swaps	**5,178**	**53**	**(28)**	1,670	33	(2)
Total interest rate fair value hedges – OTC – central clearing	**5,178**	**53**	**(28)**	1,670	33	(2)
Equity derivatives – OTC						
Equity total return swaps	**–**	**–**	**–**	92	–	(2)
Total equity derivatives – OTC	**–**	**–**	**–**	92	–	(2)
Total derivatives designated as fair value hedges	**15,664**	**139**	**(204)**	13,502	125	(257)
Derivatives designated as cash flow hedges – OTC						
Interest rate swaps	**7,134**	**158**	**(116)**	14,540	341	(183)
Cross currency interest rate swaps	**1,965**	**4**	**(57)**	1,192	62	(2)
Total interest rate cash flow hedges – OTC	**9,099**	**162**	**(173)**	15,732	403	(185)
Derivatives designated as cash flow hedges – OTC – central clearing						
Interest rate swaps	**9,400**	**82**	**(23)**	8,050	15	(65)
Total interest rate cash flow hedges – OTC – central clearing	**9,400**	**82**	**(23)**	8,050	15	(65)
Total derivatives designated as cash flow hedges	**18,499**	**244**	**(196)**	23,782	418	(250)
Total derivatives held for hedging	**34,163**	**383**	**(400)**	37,284	543	(507)
Total derivative financial instruments	**49,691**	**900**	**(934)**	59,192	1,156	(1,170)

24 Derivative financial instruments *(continued)*

Nominal values and average interest rates by residual maturity

At 31 December 2018, the Group held the following hedging instruments of interest rate risk in fair value and cash flow hedges respectively:

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	5 years +	2018 Total
Fair value hedges – Interest rate swaps						
Assets						
Hedges of investment securities – debt						
Nominal principal amount **(€ m)**	125	114	1,459	4,430	3,041	9,169
Average interest rate **(%)**[(1)]	0.99	0.74	4.24	0.85	0.97	1.43
Liabilities						
Hedges of debt securities in issue						
Nominal principal amount **(€ m)**	–	–	565	4,655	525	5,745
Average interest rate **(%)**[(1)]	–	–	3.02	1.61	2.39	1.82
Hedges of subordinated debt						
Nominal principal amount **(€ m)**	–	–	–	750	–	750
Average interest rate **(%)**[(1)]	–	–	–	4.13	–	4.13
Cash flow hedges –Interest rate swaps[(2)]						
Hedges of financial assets						
Nominal principal amount **(€ m)**	147	452	2,067	2,250	9,401	14,317
Average interest rate **(%)**[(3)]	0.25	0.35	0.24	0.59	0.78	0.65
Hedges of financial liabilities						
Nominal principal amount **(€ m)**	3	240	1,550	1,800	589	4,182
Average interest rate **(%)**[(3)]	1.60	0.77	0.90	1.03	2.84	1.22

(1)Represents the fixed rate on the hedged item which is being swapped for a variable rate.

(2)Includes interest rate swaps and cross currency swaps used to hedge interest rate risk on variable rate EUR/GBP and EUR/USD assets and liabilities.

(3)This is the average interest rate on the fixed leg of swap agreements where the variable rate on the assets and liabilities in cash flow hedges is being swapped for a fixed rate.

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 2018:

		Carrying amount[(1)]					2018
(a) Hedging instruments	Nominal € m	Assets € m	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	9,169	17	(204)	Derivative financial instruments	31	(1)	Net trading income
Debt securities in issue	5,745	117	–	Derivative financial instruments	17	–	Net trading income
Subordinated debt	750	5	–	Derivative financial instruments	3	–	Net trading income

(1)The mark to market of these instruments excluding accruals of € 14 million is € 79 million.

	Carrying amount of hedged items recognised in the SOFP*		Accumulated amount of fair value hedge adjustments on the hedged items included in the carrying amount of the hedged items				2018
(b) Hedged items	Assets € m	Liabilities € m	Assets € m	Liabilities € m	Line item in the SOFP* where hedged item is included	Change in 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	9,453		142		Investment securities	(32)	–
Debt securities in issue		(5,806)		(61)	Debt securities in issue	(17)	–
Subordinated debt		(753)		(3)	Subordinated liabilities and other capital instruments	(3)	–

*Statement of financial position.

24 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 2018:

		Carrying amount					Hedge ineffectiveness		Amounts reclassified from cash flow hedging reserves to the income statement		2018
(a) Hedging instruments	Nominal amount € m	Assets € m	Liabilities € m	Line item in the SOFP* where hedging instruments are included	Change in fair value of hedging instruments used for calculating hedge ineffectiveness in the year € m	Change in the value of the hedging instruments recognised in OCI in the year € m	Hedge ineffectiveness recognised in the income statement € m	Line item in the income statement that includes hedge ineffectiveness	Amounts for which hedge accounting had been used but for which the hedged future cash flows are no longer expected to occur € m	Amounts that have been transferred because the hedged item has affected the income statement € m	Line item in the income statement affected by the reclassification
Interest rate swaps[1]											
Derivative assets	14,317	232	(80)	Derivative financial instruments	(175)	(17)	–	Net trading income	–	143	Interest and similar income
Derivative liabilities	4,182	12	(116)	Derivative financial instruments	55	49	–	Net trading income	–	(56)	Interest expense

[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.

(b) Hedged items	Line item in SOFP* in which hedged item is included	Change in fair value of hedged items used for calculating hedge ineffectiveness for the year € m	Amount in the cash flow hedging reserves for continuing hedges[1] pre tax € m	Amounts in the cash flow hedging reserves for continuing hedges[1] post tax € m	Amounts remaining in the cash flow hedging reserves from any hedging relationships for which hedge accounting is no longer applied pre tax € m	2018 Amounts* remaining in the cash flow hedging reserves from any hedging relationships for which hedge accounting is no longer applied post tax € m
Interest rate risk	Loans and advances to customers	175	261	228	151	132
Interest rate risk	Customer accounts	(55)	(86)	(75)	–	–

*Statement of financial position

[1]The cash flow hedging reserves are adjusted to the lower of either the cumulative gain or loss or the cumulative change in fair value (present value) of the hedged item from inception of the hedge. The portion that is offset by the change in the cash flow hedging reserves is recognised in other comprehensive income with any hedge ineffectiveness recognised in the income statement.

24 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:

	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	Total € m
2018					
Forecast receivable cash flows	**64**	**19**	**122**	**231**	**436**
Forecast payable cash flows	**44**	**33**	**36**	**29**	**142**

	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	Total € m
2017					
Forecast receivable cash flows	40	22	179	215	456
Forecast payable cash flows	57	34	44	38	173

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:

	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	Total € m
2018					
Forecast receivable cash flows	**64**	**19**	**122**	**231**	**436**
Forecast payable cash flows	**105**	**72**	**81**	**35**	**293**

	Within 1 year € m	Between 1 and 2 years € m	Between 2 and 5 years € m	More than 5 years € m	Total € m
2017					
Forecast receivable cash flows	40	22	179	215	456
Forecast payable cash flows	98	51	64	47	260

Ineffectiveness reflected in the income statement that arose from cash flow hedges at 31 December 2018 amounted to Nil (31 December 2017: 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 2018 was a gain of € 28 million (2017: a charge of € 203 million).

Fair value hedges

Fair value hedges are entered into to hedge the exposure to changes in the fair value of recognised assets or liabilities arising from changes in interest rates, primarily, debt securities at FVOCI and fixed rate liabilities. The fair values of financial instruments are set out in note 52. The net mark to market on fair value hedging derivatives, excluding accrual and risk adjustments at 31 December 2018 is negative € 79 million (2017: negative € 133 million) and the net mark to market on the related hedged items at 31 December 2018 is positive € 78 million (2017: positive € 151 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 47.

25 Loans and advances to banks

	31 December 2018 € m	1 January 2018[1] € m	31 December 2017 € m
At amortised cost			
Funds placed with central banks	589	536	536
Funds placed with other banks	854	777	777
ECL allowance	–	(1)	–
	854	776	777
Total loans and advances to banks	1,443	1,312	1,313
Amounts include:			
Reverse repurchase agreements	–	3	3

Loans and advances to banks by geographical area[2]	31 December 2018 € m	1 January 2018[1] € m	31 December 2017 € m
Republic of Ireland	752	712	713
United Kingdom	689	598	598
United States of America	2	2	2
	1,443	1,312	1,313

[1]For details of the impact of adopting IFRS 9 at 1 January 2018, see note 3.

[2]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 € 570 million (31 December 2017: € 527 million) placed with derivative counterparties in relation to net derivative positions and placed with repurchase agreement counterparties.

Under reverse repurchase agreements, the Group accepts collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. There were no reverse repurchase agreements outstanding at 31 December 2018. At 31 December 2017, the collateral received consisted of non-government securities with a fair value of € 3 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.

26 Loans and advances to customers

	31 December 2018 € m	1 January 2018[1] € m	31 December 2017 € m
At amortised cost			
Loans and advances to customers	**61,309**	61,876	62,032
Reverse repurchase agreements	**–**	19	19
Amounts receivable under finance leases and hire purchase contracts	**1,451**	1,287	1,287
	62,760	63,182	63,338
ECL allowance	**(2,039)**	(3,616)	(3,345)
	60,721	59,566	59,993
Mandatorily at fair value through profit or loss			
Loans and advances to customers	**147**	156	–
Total loans and advances to customers	**60,868**	59,722	59,993
Of which repayable on demand or at short notice	**4,647**	8,126	8,126
Amounts include:			
Due from associated undertakings	**–**	5	5

[1]For details of the impact of adopting IFRS 9 at 1 January 2018, see note 3.

Loans and advances to customers include cash collateral amounting to € 79 million (31 December 2017: Nil) placed with derivative counterparties.

At 31 December 2018, there were no reverse repurchase agreements outstanding. At 31 December 2017, the Group had accepted collateral with a fair value of € 19 million in respect of reverse repurchase agreements that it was permitted to sell or repledge in the absence of default by the owner of the collateral.

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

Amounts receivable under finance leases and hire purchase contracts

The following balances principally comprise of leasing arrangements and hire purchase agreements involving vehicles, plant, machinery and equipment:

	2018 € m	2017 € m
Gross receivables		
Not later than 1 year	**582**	520
Later than one year and not later than 5 years	**946**	833
Later than 5 years	**18**	17
	1,546	1,370
Unearned future finance income	**(107)**	(91)
Deferred costs incurred on origination	**12**	8
Total	**1,451**	1,287
Present value of minimum payments		
Not later than 1 year	**564**	504
Later than one year and not later than 5 years	**872**	769
Later than 5 years	**15**	14
Present value of minimum payments	**1,451**	1,287
ECL allowance for uncollectible minimum payments receivable[1]	**41**	23[2]
Net investment in new business	**805**	674

[1]Included in loss allowance on financial assets (note 27). The IFRS 9 transition impact on ECL allowance amounted to an increase of € 14 million at 1 January 2018.

[2]Comparative data for 31 December 2017 has been prepared under IAS 39.

27 Loss allowance on financial assets

The following table shows the movements on the ECL allowance on financial assets. Comparative data for 31 December 2017 has been prepared under IAS 39. Further information is disclosed in the 'Risk management' section of this report.

	IFRS 9 31 December 2018 € m	IFRS 9 1 January 2018[(1)] € m	IAS 39 31 December 2017 € m
At 1 January	**3,617**	3,345	4,589
Transition to IFRS 9	**–**	272	–
Exchange translation adjustments	**(1)**	–	(26)
Transfer in	**14**	–	–
Net remeasurement of ECL allowance – banks	**(1)**	–	–
Net remeasurement of ECL allowance – customers	**(89)**	–	(113)
Changes in ECL allowance due to write-offs	**(1,029)**	–	(716)
Changes in ECL allowance due to disposals	**(472)**	–	(404)
Recoveries of amounts previously written-off	**–**	–	15
At 31 December	**2,039**	3,617	3,345
Amounts include loss allowance on:			
Loans and advances to banks measured at amortised cost	**–**	1	–
Loans and advances to customers measured at amortised cost	**2,039**	3,616	3,345
	2,039	3,617	3,345

(1)For details of the impact of adopting IFRS 9 at 1 January 2018, see note 3.

28 Investment securities

The following table sets out the carrying value of investment securities by type and by measurement category at 31 December 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

	31 December 2018 € m	1 January 2018[(1)] € m	31 December 2017 € m
Debt securities measured at FVOCI	**15,946**	15,642	15,642
Debt securities at amortised cost	**187**	–	–
Equity investments measured at FVOCI *(designated under IFRS 9)*	**468**	466	679
Equity investments measured at FVTPL	**260**	213	–
Total investment securities	**16,861**	16,321	16,321

(1)For details of the impact of adopting IFRS 9 at 1 January 2018, see note 3.

Credit impairment losses recognised in the income statement at 31 December 2018 amounted to Nil (31 December 2017: Nil).

On transition to IFRS 9 on 1 January 2018, the loss allowance on debt securities at FVOCI amounted to € 4 million which had no impact either on the carrying value of the debt securities or on reserves as this was a transfer between investment securities reserves and revenue reserves (note 3).

28 Investment securities *(continued)*

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 2018. Comparative data for 31 December 2017 has been prepared under IAS 39.

						2018
	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	6,282	401	(6)	395	(49)	346
Euro government securities	1,921	78	(4)	74	(9)	65
Non Euro government securities	158	3	(2)	1	–	1
Supranational banks and government agencies	1,132	26	(7)	19	(3)	16
Collateralised mortgage obligations	264	–	(11)	(11)	5	(6)
Other asset backed securities	103	–	–	–	–	–
Euro bank securities	5,007	46	(11)	35	(4)	31
Non Euro bank securities	815	1	(6)	(5)	1	(4)
Euro corporate securities	216	–	(2)	(2)	–	(2)
Non Euro corporate securities	48	–	–	–	–	–
Total debt securities at FVOCI	15,946	555	(49)	506	(59)	447
Debt securities at amortised cost						
Asset backed securities	187					
Total debt securities at amortised cost	187					
Equity securities						
Equity investments at FVOCI	468	425	–	425	(53)	372
Equity investments at FVTPL	260	84	(3)	81	(24)	57
Total equity securities	728	509	(3)	506	(77)	429
Total investment securities	16,861					

						2017
	Fair value € m	Unrealised gross gains € m	Unrealised gross losses € m	Net unrealised gains/ (losses) € m	Tax effect € m	Net after tax € m
Debt securities						
Irish Government securities	7,021	646	(6)	640	(80)	560
Euro government securities	2,406	124	–	124	(15)	109
Non Euro government securities	161	5	(1)	4	(1)	3
Supranational banks and government agencies	1,368	40	(4)	36	(3)	33
Collateralised mortgage obligations	278	–	(8)	(8)	4	(4)
Other asset backed securities	16	–	–	–	–	–
Euro bank securities	4,336	79	(1)	78	(10)	68
Euro corporate securities	56	–	–	–	–	–
Total debt securities	15,642	894	(20)	874	(105)	769
Equity securities						
Equity securities – NAMA subordinated bonds	466	423	–	423	(53)	370
Equity securities – other	213	44	(3)	41	(11)	30
Total equity securities	679	467	(3)	464	(64)	400
Total financial investments available for sale	16,321					

28 Investment securities *(continued)*

Equity investments designated at FVOCI	**2018 € m**
On adoption of IFRS 9 at 1 January 2018	**466**
Increase in unrealised gains during the year	**2**
At 31 December 2018	**468**

On the adoption of IFRS 9 at 1 January 2018, the Group designated its investment in NAMA subordinated bonds as measured at FVOCI since this investment is held for strategic purposes. Previously, this investment was classified as available for sale and measured at fair value through other comprehensive income. Dividends received during the year amounted to € 23 million (2017: € 25 million) (note 7).

Equity investments mandatorily measured at FVTPL	**2018 € m**
On adoption of IFRS 9 at 1 January 2018	**213**
At 31 December	**260**

On the adoption of IFRS 9 at 1 January 2018, all equity investments apart from the NAMA subordinated bonds above were classified and measured at FVTPL. Previously, these investments were classified as available for sale and measured at fair value through other comprehensive income.

Equity investments (IAS 39)	2017 € m
Equity investments – NAMA subordinated bonds	466
Equity investments – Visa Inc. Series B Preferred Stock	92
Equity investments – other	121
Total equity investments available for sale	679

The following table sets out an analysis of movements in investment securities/financial investments available for sale:

					2018			2017
	Debt securities at FVOCI	**Debt securities at amortised cost**	**Equity investments measured at FVOCI**	**FVTPL**	**Total**	Debt securities	Equity securities	Total
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
At 1 January	**15,642**	**–**	**466**	**213**	**16,321**	14,832	605	15,437
Exchange translation adjustments	**25**	**–**	**–**	**–**	**25**	(77)	–	(77)
Purchases/acquisitions	**3,061**	**187**	**–**	**28**	**3,276**	1,347	72	1,419
Sales/disposals	**(1,425)**	**–**	**–**	**(22)**	**(1,447)**	(1,991)	(51)	(2,042)
Maturities	**(945)**	**–**	**–**	**–**	**(945)**	(1,457)	–	(1,457)
IAS 39 reclassification in	**–**	**–**	**–**	**–**	**–**	3,234	–	3,234[1]
Amortisation of discounts net of premiums	**(71)**	**–**	**–**	**–**	**(71)**	(93)	–	(93)
Movement in unrealised (losses)/gains	**(341)**	**–**	**2**	**41**	**(298)**	(153)	53	(100)
At 31 December	**15,946**	**187**	**468**	**260**	**16,861**	15,642	679	16,321
Of which:								
Listed	**15,946**	**187**	**–**	**23**	**16,156**	15,642	16	15,658
Unlisted	**–**	**–**	**468**	**237**	**705**	–	663	663
	15,946	**187**	**468**	**260**	**16,861**	15,642	679	16,321

[1]Financial investments held to maturity with a carrying value of € 3,234 million were reclassified at 31 December 2017 to financial investments available for sale (Irish Government securities). The fair value on reclassification was € 3,301 million.

Notes to the consolidated financial statements

28 Investment securities *(continued)*

The following table sets out at 31 December 2018 and 2017, an analysis of the securities portfolio with unrealised losses, distinguishing between securities with continuous unrealised loss positions of less than 12 months and those with continuous unrealised loss positions for periods in excess of 12 months:

						2018
	Fair value			Unrealised losses		
	Investments with unrealised losses of less than 12 months €m	Investments with unrealised losses of more than 12 months €m	Total €m	Unrealised losses of less than 12 months €m	Unrealised losses of more than 12 months €m	Total €m
Debt securities at FVOCI						
Irish Government securities	91	147	238	–	(6)	(6)
Euro government securities	174	49	223	(2)	(2)	(4)
Non Euro government securities	–	44	44	–	(2)	(2)
Supranational banks and government agencies	49	247	296	–	(7)	(7)
Collateralised mortgage obligations	–	272	272	–	(11)	(11)
Euro bank securities	740	101	841	(11)	–	(11)
Non Euro bank securities	662	22	684	(6)	–	(6)
Euro corporate securities	208	8	216	(2)	–	(2)
Total debt securities at FVOCI	1,924	890	2,814	(21)	(28)	(49)
Equity securities						
Equity securities at FVTPL	5	30	35	(1)	(2)	(3)
Total	1,929	920	2,849	(22)	(30)	(52)

						2017
	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						
Irish Government securities	–	150	150	–	(6)	(6)
Non Euro government securities	–	26	26	–	(1)	(1)
Supranational banks and government agencies	187	56	243	(3)	(1)	(4)
Collateralised mortgage obligations	–	252	252	–	(8)	(8)
Euro bank securities	–	88	88	–	(1)	(1)
Total debt securities	187	572	759	(3)	(17)	(20)
Equity securities						
Equity securities	1	19	20	–	(3)	(3)
Total	188	591	779	(3)	(20)	(23)

For details of the credit quality of the investment securities portfolio, see the ‘Risk management’ section of this report.

29 Interests in associated undertakings

Included in the income statement is the contribution net of tax from investments in associated undertakings and joint venture as follows:

Income statement	2018 € m	2017 € m
Share of results of associated undertakings and joint venture	**12**	19
	12[1]	19[1]

Share of net assets including goodwill	2018 € m	2017 € m
At 1 January	**80**	65
Income for the year	**12**	19
Dividends/distribution received from associated undertakings/income from joint venture[2]	**(10)**	(9)
Investments in associated undertaking/joint venture	**10**[3]	81[4]
Disposals[5]	**(2)**	(76)
At 31 December[6]	**90**	80
Of which listed on a recognised stock exchange	**–**	–

[1]Includes AIB Merchant Services € 12 million (2017: AIB Merchant Services € 17 million and Greencoat Renewables plc € 2 million).

[2]Includes dividends/distribution received from AIB Merchant Services € 10 million (2017: AIB Merchant Services € 7 million and Greencoat Renewables plc € 2 million).

[3]During 2018, the Group invested € 10 million in Fulfil Holdings Limited (25% equity interest).

[4]Includes investment amounting to € 76 million in Greencoat Renewables plc and a capital contribution of € 5 million to Zolter Services d.a.c., the holding company of First Merchant Processing (Ireland) d.a.c., trading as AIB Merchant Services.

[5]In 2018, the Group realised its investment amounting to € 2 million in Aviva Undershaft Five Limited which was liquidated. In 2017, the Group disposed of its interest in the joint venture Greencoat Renewables plc for € 76 million.

[6]This comprises the Group's investments in AIB Merchant Services and Fulfil Holdings Limited at 31 December 2018 (2017: AIB Merchant Services and Aviva Undershaft Five Limited).

29 Interests in associated undertakings *(continued)*

The following is the principal associate company of the Group at 31 December 2018 and 2017:

Name of associate	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group at 2018 %	2017 %
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 of the associates are accounted for using the equity method in these consolidated financial statements.

Banking transactions between the Group and its associated undertakings are entered into in the normal course of business. For further information see notes 26 and 36.

In accordance with Sections 316 and 348 of the Companies Act 2014 and the European Communities (Credit Institutions: Financial Statements) Regulations 2015, AIB Group plc will annex a full listing of associated undertakings to its annual return to the Companies Registration Office.

There was no unrecognised share of losses of associates at 31 December 2018 or 2017.

Change in the Group's ownership interest in associates

During 2018, the Group invested € 10 million in Fulfil Holdings Limited (25% equity interest) and disposed of its interest in Aviva Undershaft Five Limited for € 2 million.

Significant restrictions

There is no significant restriction on the ability of associates to transfer funds to the Group in the form of cash or dividends, or to repay loans or advances made by the Group.

30 Other assets

	31 December 2018 € m	1 January 2018 € m	31 December 2017 € m
Proceeds due from disposal of loan portfolio	**13**	166	166
Other[(1)]	**343**	264[(2)]	252
Total	**356**	430	418

[(1)]Includes items in transit € 124 million and sundry debtors € 80 million.

[(2)]Transition to IFRS 15: Impact € 12 million (for further information, see note 1).

31 Intangible assets

	Software externally purchased € m	Software internally generated € m	Software under construction € m	Other € m	2018 Total € m
Cost					
At 1 January	323	794	183	3	1,303
Additions	6	40	177	–	223
Transfers in/(out)	–	123	(123)	–	–
Amounts written-off[1]	–	–	(11)	–	(11)
Exchange translation adjustments	–	–	–	–	–
At 31 December	329	957	226	3	1,515
Amortisation/impairment					
At 1 January	293	428	10	3	734
Amortisation for the year	14	91	–	–	105
Impairment for the year[2]	–	4	1	–	5
Amounts written-off[1]	–	–	(11)	–	(11)
At 31 December	307	523	–	3	833
Carrying value at 31 December	22	434	226	–	682

	Software externally purchased € m	Software internally generated € m	Software under construction € m	Other € m	2017 Total € m
Cost					
At 1 January	311	580	173	3	1,067
Additions	15	116	130	–	261
Transfers in/(out)	–	120	(120)	–	–
Amounts written-off[1]	(3)	(21)	–	–	(24)
Exchange translation adjustments	–	(1)	–	–	(1)
At 31 December	323	794	183	3	1,303
Amortisation/impairment					
At 1 January	287	381	4	3	675
Amortisation for the year	15	61	–	–	76
Impairment for the year[2]	–	1	6	–	7
Amounts written-off[1]	(3)	(21)	–	–	(24)
Transfers in/out	(6)	6	–	–	–
At 31 December	293	428	10	3	734
Carrying value at 31 December	30	366	173	–	569

[1]Relates to assets which are no longer in use with a Nil carrying value.

[2]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 55.

Notes to the consolidated financial statements

32 Property, plant and equipment

	Property			Equipment	Assets	2018 Total
	Freehold € m	Long leasehold € m	Leasehold under 50 years € m	€ m	under construction € m	€ m
Cost						
At 1 January	215	88	137	539	21	1,000
Transfers in/(out)	1	–	5	4	(10)	–
Additions	1	1	3	14	46	65
Held for sale	(3)	(1)	–	–	–	(4)
Amounts written-off[(1)]	(1)	(4)	(6)	(27)	–	(38)
Exchange translation adjustments	–	–	–	–	–	–
At 31 December	213	84	139	530	57	1,023
Depreciation/impairment						
At 1 January	74	52	95	458	–	679
Depreciation charge for the year	5	1	8	23	–	37
Impairment charge for the year[(2)]	10	2	4	3	–	19
Reversal of impairment charge for the year[(2)]	(4)	–	–	–	–	(4)
Held for sale	–	–	–	–	–	–
Amounts written-off[(1)]	(1)	(4)	(6)	(27)	–	(38)
Exchange translation adjustments	–	–	–	–	–	–
At 31 December	84	51	101	457	–	693
Carrying value at 31 December	129	33	38	73	57	330

	Property			Equipment	Assets	2017 Total
	Freehold € m	Long leasehold € m	Leasehold under 50 years € m	€ m	under construction € m	€ m
Cost						
At 1 January	217	92	132	524	21	986
Transfers in/(out)	1	–	4	5	(10)	–
Additions	1	–	3	12	10	26
Held for sale	(3)	(3)	–	–	–	(6)
Amounts written-off[(1)]	–	(1)	(1)	(1)	–	(3)
Exchange translation adjustments	(1)	–	(1)	(1)	–	(3)
At 31 December	215	88	137	539	21	1,000
Depreciation/impairment						
At 1 January	72	37	87	433	–	629
Depreciation charge for the year	5	2	8	25	–	40
Impairment charge for the year[(2)]	–	15	1	2	–	18
Held for sale	(2)	(1)	–	–	–	(3)
Amounts written-off[(1)]	–	(1)	(1)	(1)	–	(3)
Exchange translation adjustments	(1)	–	–	(1)	–	(2)
At 31 December	74	52	95	458	–	679
Carrying value at 31 December	141	36	42	81	21	321

[(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 € 199 million (2017: € 217 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 € 1 million (2017: € 1 million).

Future capital expenditure in relation to both property, plant and equipment and intangible assets is set out in note 55.

33 Deferred taxation

	31 December 2018 € m	1 January 2018[1] € m	31 December 2017 € m
Deferred tax assets:			
Transition to IFRS 9	**43**	53	–
Assets used in the business	**9**	–	–
Retirement benefits	**12**	17	17
Assets leased to customers	**10**	4	4
Unutilised tax losses	**2,808**	2,907	2,907
Other	**14**	18	18
Total gross deferred tax assets	**2,896**	2,999	2,946
Deferred tax liabilities:			
Transition to IFRS 9	**(10)**	(12)	–
Transition to IFRS 15	**(1)**	(2)	–
Cash flow hedges	**(40)**	(36)	(36)
Retirement benefits	**(58)**	(43)	(43)
Amortised income on loans	**(3)**	(4)	(4)
Assets used in business	**(21)**	(12)	(12)
Investment securities/available for sale securities	**(101)**	(142)	(145)
Other	**(67)**	(70)	(67)
Total gross deferred tax liabilities	**(301)**	(321)	(307)
Net deferred tax assets	**2,595**	2,678	2,639
Represented on the statement of financial position as follows:			
Deferred tax assets	**2,702**	2,787	2,736
Deferred tax liabilities	**(107)**	(109)	(97)
	2,595	2,678	2,639

For each of the years ended 31 December 2018 and 2017, full provision has been made for capital allowances and other temporary differences.

Analysis of movements in deferred taxation	31 December 2018 € m	1 January 2018[1] € m	31 December 2017 € m
At 1 January	**2,678**	2,639	2,747
Transition to IFRS 9	**–**	41	–
Transition to IFRS 15	**–**	(2)	–
Exchange translation and other adjustments	**–**	–	(2)
Deferred tax through other comprehensive income	**28**	–	46
Income statement – Continuing operations *(note 19)*	**(111)**	–	(152)
At 31 December	**2,595**	2,678	2,639

[1]For details of the impact of adopting IFRS 9 at 1 January 2018, see note 3.

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 264 and 265. Information on the regulatory capital treatment of deferred tax assets is included in ‘Principal risks and uncertainties’ on page 68.

At 31 December 2018, recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled € 2,595 million (31 December 2017: € 2,639 million). The most significant tax losses arise in the Irish tax jurisdiction and their utilisation is dependent on future taxable profits.

33 Deferred taxation *(continued)*

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 2018 of € 2,489 million (31 December 2017: € 2,535 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.

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 2018 of € 122 million (31 December 2017: € 122 million); overseas tax (UK and USA) on unused tax losses of € 3,015 million (31 December 2017: € 3,090 million); and foreign tax credits for Irish tax purposes of € 13 million (31 December 2017: € 3 million). Of these tax losses totalling € 3,137 million for which no deferred tax is recognised: € 24 million expires in 2032; € 38 million in 2033; € 25 million in 2034; and € 5 million in 2035.

The aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates for which deferred tax liabilities have not been recognised amounted to Nil (31 December 2017: Nil).

Deferred tax recognised directly in equity amounted to Nil (31 December 2017: Nil).

Analysis of income tax relating to total comprehensive income

				2018
	Gross € m	Tax € m	Net of tax € m	Net amount attributable to owners of the parent € m
Profit for the year	**1,247**	**(155)**	**1,092**	**1,092**
Exchange translation adjustments	**10**	**–**	**10**	**10**
Net change in cash flow hedging reserves	**32**	**(4)**	**28**	**28**
Net change in fair value of investment securities at FVOCI	**(330)**	**41**	**(289)**	**(289)**
Net actuarial gains in retirement benefit schemes	**35**	**(9)**	**26**	**26**
Total comprehensive income for the year	**994**	**(127)**	**867**	**867**
Attributable to:				
Owners of the parent	**994**	**(127)**	**867**	**867**

				2017
	Gross € m	Tax € m	Net of tax € m	Net amount attributable to owners of the parent € m
Profit for the year	1,306	(192)	1,114	1,114
Exchange translation adjustments	(53)	–	(53)	(53)
Net change in cash flow hedging reserves	(234)	31	(203)	(203)
Net change in fair value of available for sale securities	(148)	16	(132)	(132)
Net actuarial gains in retirement benefit schemes	25	(1)	24	24
Total comprehensive income for the year	896	(146)	750	750
Attributable to:				
Owners of the parent	896	(146)	750	750

34 Retirement benefits

The Group operates a number of defined contribution and defined benefit schemes for employees. All defined benefit schemes are closed to future accrual.

Defined contribution schemes

On 1 January 2014, all Group staff transferred to defined contribution (“DC”) schemes 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 administrative expenses in respect of DC schemes is € 75 million (2017: € 75 million) (note 13).

Defined benefit schemes

All defined benefit schemes operated by the Group closed to future accrual no later than 31 December 2013 and staff transferred to defined contribution schemes for future pension benefits. The most significant defined benefit schemes operated by the Group are the AIB Group Irish Pension Scheme (‘the Irish scheme’) and the AIB Group UK Pension Scheme (‘the UK scheme’).

Retirement benefits for the defined benefit schemes are calculated by reference to service and Final Pensionable Salary at 31 December 2013. The Final Pensionable Salary used in the calculation of this benefit for staff is based on their average pensionable salary in the period between 30 June 2009 and 31 December 2013. This calculation of benefit for each staff member will revalue between 1 January 2014 and retirement date in line with the statutory requirement to revalue deferred benefits. There is no link to any future changes in salaries.

In the main Irish Scheme, there are 16,384 members comprising 4,028 pensioners and 12,356 deferred members as at 31 December 2018. 7,971 members have benefits accrued from 2007 to 2013 under a hybrid arrangement. In addition, there are 1,000 members comprising 111 pensioners and 889 deferred members as at 31 December 2018 in EBS Defined Benefit Schemes.

Responsibilities for governance

The Trustees of each Group pension scheme are ultimately responsible for the governance of the schemes.

Risks

Details of the pension risk to which the Group is exposed are set out in the Risk section on page 161 of this report.

Valuations

Independent actuarial valuations for the AIB Group Irish Pension Scheme (‘Irish scheme’) and the AIB Group UK Pension Scheme (‘UK scheme’) are carried out on a triennial basis by the Schemes’ actuary, Mercer. The most recent valuation of the Irish scheme was carried out at 30 June 2018 and reported the scheme to be in surplus and requiring no deficit funding at this time. It has been agreed with the Trustee of the UK Scheme to extend the deadline for completing the valuation at 31 December 2017 to 2019.

Contributions

Payments in 2018 amounted to € 72 million. Contributions to the Irish scheme include € 40 million, being the final payment under the Minimum Funding Standard funding proposal agreed in 2013 with the Pensions Authority and Trustee of the Irish Scheme, and a € 9 million payment to fund a discretionary increase in pensions in payment. £ 19.1 million was contributed to the UK scheme as part of the asset backed funding plan described below.

The total contributions to all the defined benefit pension schemes operated by the Group in the year ended 31 December 2019 are estimated to be € 1 million (excluding the UK scheme). The Group is currently considering funding options for the UK scheme with the Trustee.

34 Retirement benefits *(continued)*

Funding arrangements and policy

There is an asset backed funding plan in place for the UK scheme. This plan grants the UK Scheme a regular income payable quarterly from 1 April 2016 to 31 December 2032. Based on the interim results of the December 2017 valuation, the asset backed funding plan would pay the UK Scheme £ 15 million in 2019 (2018: £ 19.1 million). In addition, if the 31 December 2032 actuarial valuation of the UK scheme reveals a deficit, the scheme will receive a termination payment equal to the lower of that deficit or £ 60 million. However, as mentioned above, the Group is currently considering funding options for the UK scheme with the Trustee.

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 2018 and 2017. The assumptions have been set based upon the advice of the Group's actuary.

Financial assumptions	2018 %	2017 %
Irish scheme		
Rate of increase of pensions in payment[(1)]	**0.00**	0.00
Discount rate	**2.14**	2.07
Inflation assumptions[(2)]	**1.25**	1.35
UK scheme		
Rate of increase of pensions in payment	**3.20**	3.10
Discount rate	**2.90**	2.50
Inflation assumptions (RPI)	**3.20**	3.10
Other schemes		
Rate of increase of pensions in payment	**0.00 – 3.20**	0.00 – 2.10
Discount rate	**2.14 – 4.20**	2.10 – 3.55
Inflation assumptions	**1.25 – 3.20**	1.35 – 3.10

[(1)]Having taken actuarial and external legal advice, the Board determined that the funding of discretionary increases in pensions in payment is a decision to be made by the Board annually. Accordingly, the long term rate of increases of pensions in payment is Nil.

[(2)]The inflation assumption applies to the revaluation of deferred members' benefits up to their retirement date.

34 Retirement benefits *(continued)*

Funding of increases in pensions in payment for the defined benefit scheme

The Board has determined that the funding of discretionary increases to pensions in payment is a decision to be made by the Board each year. A process, taking account of all relevant interests and factors has been implemented by the Board. These interests and factors include: the advice of the Actuary; the interests of the members of the scheme; the interests of the employees; the Group's financial circumstances and ability to pay; the views of the Trustees; the Group's commercial interests and any competing obligations to the State.

The Group completed this process early in 2019 taking account of all relevant factors and decided that the funding of discretionary increases to pensions in payment was appropriate for 2019. Funding will be provided to enable the Trustee to grant an increase of 0.50% in 2019. If the Trustees award an increase of 0.50%, Irish schemes' liabilities would increase by c. € 10 million.

In 2018, under this process, the Group agreed to provide a level of funding for discretionary increases in pensions in payment for 2018 for certain schemes. The Trustees of these schemes awarded an increase in the range of 0.35% to 0.50% in respect of pensions eligible for discretionary pension increases. This resulted in a past service cost of € 10 million in 2018. In 2017, the Board decided that funding of discretionary increases was not appropriate for 2017.

As the decision to fund discretionary increases to pensions in payment is an annual process, the Board will go through this process again in early 2020 for 2020.

Mortality assumptions

The life expectancies underlying the value of the scheme liabilities for the Irish and UK schemes at 31 December 2018 and 2017 are shown in the following table:

		Life expectancy - years			
		Irish scheme		UK scheme	
		2018	2017	**2018**	2017
Retiring today age 63					
	Males	**25.2**	25.1	**25.0**	25.1
	Females	**27.1**	27.0	**27.0**	27.0
Retiring in 10 years at age 63					
	Males	**26.0**	26.0	**25.8**	26.0
	Females	**28.1**	28.0	**27.9**	28.0

The mortality assumptions for the Irish and UK schemes were updated in 2017 to reflect emerging market experience. The table shows that a member of the Irish scheme retiring at age 63 on 31 December 2018 is assumed to live on average for 25.2 years for a male (25.0 years for the UK scheme) and 27.1 years for a female (27.0 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 2018 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

34 Retirement benefits *(continued)*

Movement in defined benefit obligation and scheme assets

The following table sets out the movement in the defined benefit obligation and scheme assets during 2018 and 2017:

	2018				2017			
	Defined benefit obligation	**Fair value of scheme assets**	**Asset ceiling/ minimum funding[1]**	**Net defined benefit (liabilities) assets**	Defined benefit obligation	Fair value of scheme assets	Asset ceiling/ minimum funding[1]	Net defined benefit (liabilities) assets
	€ m	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m
At 1 January	**(5,694)**	**6,328**	**(538)**	**96**	(6,153)	6,413	(252)	8
Included in profit or loss								
Past service cost	**(12)[2]**	**–**		**(12)[2]**	–	–		–
Interest (cost) income	**(120)**	**136**	**(11)**	**5**	(122)	129	(5)	2
Administration costs	**–**	**(1)**		**(1)**	–	(1)		(1)
	(132)	**135**	**(11)**	**(8)**	(122)	128	(5)	1
Included in other comprehensive income								
Remeasurements gain/(loss):								
– Actuarial gain/(loss) arising from:								
– Experience adjustments	**105**	**–**		**105**	(36)	–		(36)
– Changes in demographic assumptions	**6**	**–**		**6**	41	–		41
– Changes in financial assumptions	**145**	**–**		**145**	137	–		137
– Return on scheme assets excluding interest income	**–**	**(149)**		**(149)**	–	164		164
– Asset ceiling/minimum funding adjustments			**(72)**	**(72)**			(281)	(281)
				35[3]				25[3]
Translation adjustment on non-euro schemes	**6**	**(9)**		**(3)**	52	(54)		(2)
	262	**(158)**	**(72)**	**32**	194	110	(281)	23
Other								
Contributions by employer	**–**	**72**		**72**	–	64		64
Benefits paid	**241**	**(241)**		**–**	387	(387)		–
	241	**(169)**		**72**	387	(323)		64
At 31 December	**(5,323)**	**6,136**	**(621)**	**192**	(5,694)	6,328	(538)	96

	31 December 2018 € m	31 December 2017 € m
Recognised on the statement of financial position as:		
Retirement benefit assets		
– UK scheme	**232**	174
– Other schemes	**9**	9
Total retirement benefit assets	**241**	183
Retirement benefit liabilities		
– Irish scheme	**–**	(40)
– EBS scheme	**(29)**	(26)
– Other schemes	**(20)**	(21)
Total retirement benefit liabilities	**(49)**	(87)
Net pension surplus	**192**	96

[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]Includes a charge of € 2 million relating to the equalisation of guaranteed minimum funding benefits in the UK Scheme.

[3]After tax € 26 million (2017: € 24 million) see page 289.

34 Retirement benefits *(continued)*

Scheme assets

The following table sets out an analysis of the scheme assets:

	2018 € m	2017 € m
Cash and cash equivalents	**133**	114
Equity instruments		
Quoted equity instruments:		
Basic materials	**66**	79
Consumer goods	**115**	169
Consumer services	**134**	129
Energy	**129**	143
Financials	**253**	297
Healthcare	**162**	153
Industrials	**147**	166
Technology	**167**	198
Telecoms	**98**	39
Utilities	**42**	40
Total quoted equity instruments	**1,313**	1,413
Unquoted equity instruments	**12**	12
Total equity instruments	**1,325**	1,425
Debt instruments		
Quoted debt instruments		
Corporate bonds	**1,117**	1,274
Government bonds	**1,430**	1,166
Total quoted debt instruments	**2,547**	2,440
Real estate[1][2]	**202**	261
Derivatives	**20**	(45)
Investment funds		
Quoted investment funds		
Alternatives	**24**	24
Bonds	**387**	494
Cash	**1**	1
Equity	**214**	242
Fixed interest	**103**	100
Forestry	**37**	37
Liability driven	**594**	626
Multi-asset	**215**	240
Property	**1**	1
Total quoted investment funds	**1,576**	1,765
Total investment funds	**1,576**	1,765
Mortgage backed securities[2]	**333**	365
Structured debt	**–**	3
Fair value of scheme assets at 31 December	**6,136**	6,328

[1] Located in Europe.

[2] A quoted market price in an active market is not available.

34 Retirement benefits *(continued)*

Sensitivity analysis for principal assumptions used to measure scheme liabilities

There are inherent uncertainties surrounding the financial assumptions adopted in calculating the actuarial valuation of the pension schemes. Set out in the table below is a sensitivity analysis of the key assumptions for the Irish scheme and the UK scheme at 31 December 2018.

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)	**(165)**	**176**	**(38)**	**40**
Inflation (0.25% movement)	**45**	**(42)**	**37**	**(36)**
Future mortality (1 year change in life expectancy)	**106**	**(104)**	**29**	**(29)**

Maturity of the defined benefit obligation

The weighted average duration of the Irish scheme at 31 December 2018 is 17 years and of the UK scheme at 31 December 2018 is 17 years.

Asset-liability matching strategies

Since 2012, the Irish Scheme has reduced its level of equities from c. 63% to c. 30%, put an equity protection strategy in place and increased the level of bonds and liability matching assets. The UK scheme has already implemented a de-risking strategy that has resulted in a significant investment in liability matching assets. This strategy includes the elimination of all equity investments and the investment of all assets in a combination of corporate bonds, sovereign bonds and liability matching instruments.

Long-term disability payments

AIB provides an additional benefit to employees who suffer prolonged periods of sickness, subject to 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. In 2018, the Group contributed € 9 million (2017: € 8 million) towards insuring this benefit. This amount is included in administrative expenses (note 13).

35 Deposits by central banks and banks

	2018 € m	2017 € m
Central banks		
Eurosystem refinancing operations[1]	–	1,900
Other borrowings – secured	279	–
– unsecured	175	500
	454	2,400
Banks		
Securities sold under agreements to repurchase	145	901
Other borrowings – unsecured	245	339
	390	1,240
	844	3,640
Amounts include:		
Due to associated undertakings	–	–

[1]Eurosystem refinancing operations are credit facilities from the Eurosystem secured by a fixed charge over securities. These were fully repaid during 2018.

Securities sold under agreements to repurchase mature within six months and are secured by Irish Government bonds, other marketable securities and eligible assets. These agreements are completed under market standard Global Master Repurchase Agreements.

Deposits by central banks and banks include cash collateral at 31 December 2018 of € 177 million (2017: € 166 million) received from derivative counterparties in relation to net derivative positions (note 47) and also from repurchase agreement counterparties.

Financial assets pledged

Financial assets pledged under existing agreements to repurchase, for secured borrowings, and providing access to future funding facilities with central banks and banks are detailed in the following table:

	2018			2017		
	Central banks € m	Banks € m	Total € m	Central banks € m	Banks € m	Total € m
Total carrying value of financial assets pledged	1,689	200	1,889	3,462	954	4,416
Of which:						
Government securities	–	107	107	–	696	696
Other securities[1]	1,689	93	1,782	3,462	258	3,720

[1]The Group has securitised certain of its mortgage and loan portfolios held in AIB Mortgage Bank and EBS and has also issued covered bonds. These securities, other than issued to external investors, have been pledged as collateral in addition to other securities held by the Group.

36 Customer accounts

	2018 € m	2017 € m
Current accounts	**36,853**	33,179
Demand deposits	**15,728**	14,007
Time deposits	**15,117**	17,305
Securities sold under agreements to repurchase[1]	**1**	81
	67,699	64,572
Of which:		
Non-interest bearing current accounts	**29,635**	28,977
Interest bearing deposits, current accounts and short-term borrowings	**38,064**	35,595
	67,699	64,572
Amounts include:		
Due to associated undertakings	**253**	191

[1]At 31 December 2018, the Group had pledged government investment securities with a fair value of € 1 million (2017: € 71 million) and non-government investment securities with a fair value of Nil (2017: € 12 million) as collateral for these facilities (see note 47 for further information).

Customer accounts include cash collateral of € 113 million (2017: € 34 million) received from derivative counterparties in relation to net derivative positions (note 47).

At 31 December 2018, the Group's five largest customer deposits amounted to 1% (2017: 1%) of total customer accounts.

37 Trading portfolio financial liabilities

	2018 € m	2017 € m
Debt securities:		
Government securities	–	30
	–	30

For contractual residual maturity see 'Risk management' – 3.4 Liquidity risk.

38 Debt securities in issue

	2018 € m	2017 € m
AIB Group plc		
Euro Medium Term Note Programme	**1,000**	–
Global Medium Term Note Programme	**655**	–
	1,655	–
Other issuances		
Bonds and medium term notes:		
Euro Medium Term Note Programme	**1,000**	1,000
Bonds and other medium term notes	**3,090**	3,590
	4,090	4,590
	5,745	4,590

Analysis of movements in debt securities in issue

	2018 € m	2017 € m
At 1 January	**4,590**	6,880
Issued during the year	**1,651**	412
Matured	**(500)**	(2,686)
Amortisation of discounts net of premiums	**–**	–
Exchange translation adjustments	**4**	(16)
At 31 December	**5,745**	4,590

In March 2018, AIB Group plc issued € 500 million Senior Unsecured 1.50% Notes maturing on 29 March 2023. The notes bear interest on the outstanding nominal amount, payable annually in arrears on 29 March each year.

In July 2018, AIB Group plc issued € 500 million Senior Unsecured 2.25% Notes maturing on 3 July 2025. The notes bear interest on the outstanding nominal amount, payable annually in arrears on 3 July each year.

In October 2018, AIB Group plc issued US $ 750 million unsecured 4.75% notes maturing on 12 October 2023. The notes bear interest on the outstanding nominal amount, payable semi-annually in arrears on 12 April and 12 October each year.

In 2018, the Group did not issue debt securities under the short-term commercial paper programme (2017: € 412 million issued and matured under this programme).

Debt securities which matured amounted to € 500 million (2017: € 2,686 million of which € 450 million related to the redemption of debt securities issued by the securitisation vehicles, Emerald Mortgages No. 4 Public Limited Company and Tenterden Funding p.l.c. (note 50)).

39 Other liabilities

	2018 € m	2017 € m
Notes in circulation	**313**	333
Items in transit	**65**	109
Creditors	**17**	19
Fair value of hedged liability positions	**64**	43
Other[1]	**428**	320
	887	824

[1]Includes bank drafts € 154 million (31 December 2017: € 141 million), items in course of collection € 79 million (2017: € 26 million) and the purchase of debt securities awaiting settlement € 13 million (31 December 2017: Nil).

40 Provisions for liabilities and commitments

	Liabilities and charges	Onerous contracts	Legal claims	Other provisions	ECLs on loan commit-ments	ECLs on financial guarantee contracts	2018 Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 31 December 2017	**31**	**59**	**37**	**104**	**–**	**–**	**231**
Impact of adopting IFRS 9 at 1 January 2018:							
Reclassification[1]	**(31)**	**–**	**–**	**(1)**	**–**	**32**	**–**
Remeasurement[1]	**–**	**–**	**–**	**–**	**16**	**20**	**36**
Restated balance at 1 January 2018	**–**	**59**	**37**	**103**	**16**	**52**	**267**
Transfers out	**–**	**–**	**–**	**–**	**–**	**(14)**	**(14)**
Charged to income statement	**–**	**89**[2]	**8**[2]	**85**[2]	**19**[3]	**6**[3]	**207**
Released to income statement	**–**	**(54)**[2]	**(4)**[2]	**(7)**[2]	**(10)**[3]	**(11)**[3][4]	**(86)**
Provisions utilised	**–**	**(29)**	**(2)**	**(124)**	**–**	**–**	**(155)**
At 31 December 2018	**–**	**65**	**39**	**57**	**25**	**33**	**219**[5]

	Liabilities and charges € m	Onerous contracts € m	Legal claims € m	Other provisions € m	2017 Total € m
At 1 January	47	12	32	155	246
Transfers in	–	–	4	(4)	–
Exchange translation adjustments	(3)	–	–	(1)	(4)
Charged to income statement	2[6]	52[2]	7[2]	60[2]	121
Released to income statement	(10)[6]	(1)[2]	(4)[2]	(19)[2]	(34)
Provisions utilised	(5)	(4)	(2)	(87)	(98)
At 31 December 2017	31	59	37	104	231[5]

[1]For details of the impact of adopting IFRS 9 at 1 January 2018, see note 3.

[2]Included in ‘Other general and administrative expenses’ in note 13 ‘Administrative expenses’.

[3]Included in ‘Net credit impairment writeback’, note 15.

[4]€ 2 million included in ‘Net gain on derecognition of financial assets measured at amortised cost’, note 11.

[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 € 71 million (31 December 2017: € 150 million).

[6]Included in writeback of provisions for liabilities and commitments in income statement at 31 December 2017.

(a) Other provisions

Includes the provisions for customer redress and related matters, other restitution provisions, and miscellaneous provisions.

Tracker Mortgage Examination

Provisions amounting to € 135 million were created in the period 2015 to 2017 relating to the expected outflow for customer redress and compensation in respect of tracker mortgages where rates given to customers were either not in accordance with original contract terms or where the transparency of terms did not conform to that which a customer could reasonably have expected (Tracker Mortgage Examination). The Group determined that a further € 35 million was required during 2018 for customer redress and compensation, including payments arising on appeals.

Over € 160 million of the provision has now been utilised (€ 95 million at 31 December 2017). As a result, the provision at 31 December 2018 is € 10 million which is required for the remaining customers that have yet to receive redress and compensation. Payments are expected to complete in early 2019. The residual amount reflects the advanced stage of the examination process in the Group.

The Group also created provisions of € 95 million with regard to ‘Other Costs’ during the period 2015 to 2017. During 2018, € 2 million was released to the Income statement. € 88 million has now been utilised (€ 68 million at 31 December 2017) leaving a provision at 31 December 2018 of € 5 million. Further disclosures in relation to the wider impact of the Tracker Mortgage Examination are contained in Note 48: Memorandum items: contingent liabilities and commitments, and contingent assets in the section ‘Legal Proceedings’.

40 Provisions for liabilities and commitments *(continued)*

(b) Onerous contracts

Arising from the Group's property strategy, the Group will exit certain office space. In this regard, the Group made an onerous lease provision amounting to € 87 million in 2018 as further office space was identified to exit following a Board decision in 2018. The required provision represents the unavoidable costs which are expected to arise when exiting the office space identified under the strategy. During 2018, € 26 million of the provision was utilised. In 2017, a provision of € 52 million was made in respect of the property strategy.

(c) IFRS 9

At 1 January 2018, the Group adopted IFRS 9. This resulted in the provision for ECLs on loan commitments amounting to € 16 million and ECLs on financial guarantee contracts amounting to € 20 million. In addition, a provision amounting to € 32 million previously held was reclassified to ECLs on financial guarantees.

41 Subordinated liabilities and other capital instruments

	2018 € m	2017 € m
Dated loan capital – European Medium Term Note Programme:		
€ 750 million Subordinated Tier 2 Notes due 2025, Callable 2020	**750**	750
€ 500m Callable Step-up Floating Rate Notes due October 2017		
– nominal value € 25.5 million (maturity extended to 2035 as a result of the SLO)	**10**	9
£ 368m 12.5% Subordinated Notes due June 2019		
– nominal value £ 79 million (maturity extended to 2035 as a result of the SLO)	**34**	33
£ 500m Callable Fixed/Floating Rate Notes due March 2025		
– nominal value £ 1 million (maturity extended to 2035 as a result of the SLO)	**1**	1
	795	793

Maturity of dated loan capital	**2018 € m**	2017 € m
Dated loan capital outstanding is repayable as follows:		
5 years or more	**795**	793

Dated loan capital

The dated loan capital in this section, issued under the European Medium Term Note Programme, is subordinated in right of payment to the ordinary creditors, including depositors, of the Group.

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

On 26 November 2015, the Group issued € 750 million Subordinated Tier 2 Notes due 2025, Callable 2020.

These notes mature on 26 November 2025 but can be redeemed in whole, but not in part, at the option of the Group on the optional redemption date on 26 November 2020, subject to the approval of the Financial Regulator, with approval being conditional on meeting the requirements of the EU Capital Requirements Regulation.

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

(b) 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.

Notes to the consolidated financial statements

42 Share capital

	31 December 2018		31 December 2017	
	Number of shares	**€**	Number of shares	€
Authorised				
Ordinary share capital				
Subscriber Shares of € 0.625 each	**40,000**	**25,000**	40,000	25,000
Ordinary shares of € 0.625 each	**4,000,000,000**	**2,500,000,000**	4,000,000,000	2,500,000,000
Total	**4,000,040,000**	**2,500,025,000**	4,000,040,000	2,500,025,000
Issued and fully paid				
Ordinary share capital				
At 1 January	**2,714,421,237**	**1,696,513,273**	2[(1)(2)]	1[(1)(2)]
Issued to satisfy requirements for a public limited company				
Ordinary shares of € 0.625 each	**–**	**–**	39,998[(2)]	24,999[(2)]
Impact of corporate restructure				
Ordinary shares of € 2.47 each	**–**	**–**	2,714,381,237	6,704,521,655
Reduction in company capital from € 2.47 per share to € 0.625 per share	**–**	**–**		(5,008,033,382)
Redemption of Subscriber Shares of € 0.625 each	**(40,000)**	**(25,000)**	–	–
At 31 December				
Subscriber Shares of € 0.625 each	**–**	**–**	40,000	25,000
Ordinary shares of € 0.625 each	**2,714,381,237**	**1,696,488,273**	2,714,381,237	1,696,488,273
Total	**2,714,381,237**	**1,696,488,273**	2,714,421,237	1,696,513,273

[(1)]These had been issued on incorporation.

[(2)]Converted to Subscriber Shares during 2017.

In November 2018, the Subscriber Shares were cancelled and redeemed at par.

The table above is summarised as follows:

	31 December 2018		31 December 2017	
	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				
Ordinary share capital				
Ordinary shares of € 0.625 each	**2,714.4**	**1,696**[(1)]	2,714.4	1,697[(1)]

[(1)]Reduction due to rounding.

2017

The following sets out the history of the share capital of AIB Group plc (previously RPML 1966 Holdings plc) from the date of incorporation to 31 December 2017.

On 8 December 2016, RPML 1966 Holdings plc was incorporated with an authorised share capital of € 25,000 divided into 40,000 ordinary shares of nominal value € 0.625 each and an issued share capital on this date of € 1.25 comprising two fully paid-up ordinary shares of € 0.625 each.

On 21 February 2017, a further 39,998 ordinary shares of € 0.625 each were issued to satisfy requirements for a public limited company. These shares were fully paid-up and rank pari passu with the existing ordinary shares in issue.

On 5 September 2017, RPML 1966 Holdings plc changed its name to AIB Group plc.

Following shareholder resolutions passed on 6 October 2017, the authorised share capital was increased to € 9,880,025,000 divided into 4,000,000,000 ordinary shares of € 2.47 each and 40,000 ordinary shares of € 0.625 each.

42 Share capital *(continued)*

2017

Pursuant to the Scheme of Arrangement described in note 46 'Corporate restructuring', on 8 December 2017, 2,714,381,237 ordinary shares in Allied Irish Banks, p.l.c. were cancelled and on the same date Allied Irish Banks, p.l.c. issued 2,714,381,237 ordinary shares of nominal value € 0.625 per share to AIB Group plc making AIB Group plc the parent company of Allied Irish Banks, p.l.c. On the same date, AIB Group plc issued 2,714,381,237 ordinary shares of nominal value € 2.47 per share to the former shareholders of Allied Irish Banks, p.l.c. The 40,000 ordinary shares of € 0.625 each were converted into Subscriber Shares with no voting or income rights and only limited rights on a return of capital on the Scheme of Arrangement becoming effective.

Subsequent to the issue by AIB Group plc of 2,714,381,237 ordinary shares of nominal value € 2.47 per share, AIB Group plc petitioned the High Court for a capital reduction in order to create distributable reserves in the accounts of AIB Group plc. This involved the reduction of the nominal value of the ordinary shares from € 2.47 per share to € 0.625 per share. The capital reduction which created € 5,008 million in distributable reserves became effective on 14 December 2017 (note 46).

Following the Scheme of Arrangement and the capital reduction becoming effective, the Company revised the authorised share capital to € 2,500,025,000 divided into 4,000,000,000 ordinary shares of € 0.625 each and 40,000 Subscriber Shares of € 0.625 each.

2018

In November 2018, the Subscriber Shares were cancelled and redeemed at par.

Warrants

On 26 April 2017, the Minister for Finance ('the Minister') issued a Warrant Creation Notice requiring AIB to issue warrants to the Minister five business days after re-admission of AIB's ordinary shares to a regulated market. On 4 July 2017, AIB issued warrants to the Minister to subscribe for 271,166,685 ordinary shares of Allied Irish Banks, p.l.c. in accordance with the terms of the Warrant Agreement approved by shareholders in December 2015. The exercise price for the warrants is € 8.80 per ordinary share and the warrants are exercisable during the period commencing 27 June 2018 and ending 27 June 2027.

This warrant instrument was replaced by a new warrant instrument (the "AIB Group plc Warrant Instrument") pursuant to which the Minister for Finance was issued warrants to subscribe for AIB Group plc shares on the same terms and conditions as the Allied Irish Banks, p.l.c. warrants. The new warrant instrument with AIB Group plc became effective on 8 December 2017, i.e. upon the Scheme of Arrangement becoming effective (note 46). Allied Irish Banks, p.l.c. warrants were cancelled on that date.

Structure of the Company's share capital

The following table shows the structure of the Company's share capital:

	31 December 2018		31 December 2017	
	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	
	2018 € m	2017 € m
Equity	**13,858**	13,612
Dated capital notes *(note 41)*	**795**	793
Total capital resources	**14,653**	14,405

43 Own shares

Employee share schemes and trusts

In the past, the Group sponsored a number of employee share schemes whereby purchases of shares were made in the open market to satisfy commitments under the various schemes.

At 31 December 2017, 5,820 shares were held by trustees with a carrying value of € 23 million. The carrying value was deducted from revenue reserves while the shares were held by the Group. These shares were disposed of in full during 2018 with the proceeds of disposal being credited directly to equity.

44 Other equity interests

	2018 € m	2017 € m
At beginning and end of year	494	494

Additional Tier 1 Perpetual Contingent Temporary Write-down Securities

In 2015, Allied Irish Banks, p.l.c. issued € 500 million nominal value of Additional Tier 1 Perpetual Contingent Temporary Write-down Securities ('AT1s'). The securities, which are accounted for as equity in the statement of financial position, are included in the Group's capital base as fully CRD IV compliant additional tier 1 capital on a fully loaded basis.

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

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

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

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

45 Capital reserves, merger reserve and capital redemption reserves

Capital reserves	2018 Capital contribution reserves € m	2018 Other capital reserves € m	2018 Total € m	2017 Capital contribution reserves € m	2017 Other capital reserves € m	2017 Total € m
At 1 January	**955[(1)]**	**178**	**1,133**	1,021	178	1,199
Transfer to revenue reserves:						
Anglo business transfer	**–**	**–**	**–**	(66)	–	(66)
At 31 December	**955[(1)]**	**178**	**1,133**	955[(1)]	178	1,133

[(1)]Relates to the acquisition of EBS d.a.c.

The capital contribution reserves arose from the acquisition of Anglo deposit business and EBS. The capital contribution reserves which arose on the Anglo business transfer are now deemed to be distributable having been fully transferred to revenue reserves at 31 December 2017, thereby, meeting the conditions for distribution outlined in accounting policy (ab) in note 1.

Merger reserve	2018 € m	2017 € m
At end of year	**(3,622)**	(3,622)

Under the Scheme of Arrangement (“the Scheme”) approved by the High Court on 6 December 2017 which became effective on 8 December 2017, a new company, AIB Group plc (‘the Company’), was introduced as the holding company of AIB Group. AIB Group plc was a recently incorporated public limited company registered in Ireland. The share capital of Allied Irish Banks, p.l.c., other than a single share owned by AIB Group plc, was cancelled and an equal number of new shares were issued by the Company to the shareholders of Allied Irish Banks, p.l.c. The difference between the carrying value of the net assets of Allied Irish Banks, p.l.c. entity on acquisition by the Company and the nominal value of the shares issued on implementation of the Scheme amounting to € 6,235 million was accounted for as a merger reserve (note 46).

In the consolidated financial statements of AIB Group plc, the transaction was accounted for under merger accounting. Accordingly, the carrying value of the investment in Allied Irish Banks, p.l.c. by AIB Group plc is eliminated against the share capital and share premium account in Allied Irish Banks, p.l.c. and the merger reserve in AIB Group plc resulting in a negative merger reserve of € 3,622 million.

Capital redemption reserves	2018 € m	2017 € m
At beginning and end of year	**14**	14

During 2018, the Group cancelled and redeemed at par outstanding Subscriber Shares (note 42). An amount equal to the nominal value of shares redeemed was credited to capital redemption reserves from revenue reserves.

46 Corporate restructuring

In 2017, the Group implemented the Single Resolution Board's preferred resolution strategy for AIB Group which consisted of a single point of entry via a holding company.

Accordingly, Allied Irish Banks, p.l.c. undertook a corporate restructuring during 2017 which comprised three principal elements:
(a) Scheme of Arrangement;
(b) Admission to Listing; and
(c) AIB Group plc capital reduction.

(a) Scheme of Arrangement

The Scheme of Arrangement ('the Scheme') involved the establishment of a new group holding company, AIB Group plc ('the Company'), directly above Allied Irish Banks, p.l.c.

On 8 December 2017, Allied Irish Banks, p.l.c. was acquired by AIB Group plc.

Under the Scheme of Arrangement, on 8 December 2017, 2,714,381,237 Allied Irish Banks, p.l.c. ordinary shares of nominal value € 0.625 per share were cancelled and AIB Group plc issued 2,714,381,237 ordinary shares of nominal value € 2.47 per share to the shareholders of Allied Irish Banks, p.l.c. for the shares cancelled. On the same date, Allied Irish Banks, p.l.c. issued 2,714,381,237 ordinary shares of nominal value € 0.625 per share to AIB Group plc. Allied Irish Banks p.l.c. is now a 100% subsidiary of AIB Group plc.

The Scheme of Arrangement was accounted for as follows in respect of AIB Group plc:

Company financial statements

The ordinary shares in Allied Irish Banks, p.l.c. that were acquired by AIB Group plc were reflected in the standalone statement of financial position of AIB Group plc at the book value of those shares at 8 December 2017 based on the company statement of financial position of Allied Irish Banks, p.l.c. i.e. the net asset value ('NAV amount') having satisfied the conditions of IAS 27, paragraph 13.

In accordance with the Companies Act 2014, Section 72, the difference between the NAV amount and the aggregate nominal value of new ordinary shares issued by AIB Group plc was treated as an unrealised profit, a 'merger reserve'. As required by Section 72, no share premium was created.

Consolidated financial statements

AIB Group plc was set up for the purpose of meeting regulatory requirements designed to facilitate future bank resolutions.
The introduction of AIB Group plc as the new holding company with exactly the same shareholders as the previous parent, Allied Irish Banks, p.l.c. was a common control transaction. This business combination was presented similar to that for a reverse acquisition where the existing parent, Allied Irish Banks, p.l.c. was determined to be the accounting acquirer. The consolidated financial statements in 2017 incorporated the acquired entity's (Allied Irish Banks, p.l.c.) results as if both entities, AIB Group plc and Allied Irish Banks, p.l.c. had always been combined and reflected both entities full year's results.

Whilst the consolidated financial statements were issued under the name of the legal parent, AIB Group plc, these were, in effect, a continuation of the financial statements of the legal subsidiary, Allied Irish Banks, p.l.c. with one adjustment, which was to adjust retroactively the accounting acquirer's legal capital to reflect the legal capital of the accounting acquiree, AIB Group plc.

(b) Admission to Listing

The ordinary shares of AIB Group plc were admitted to the main markets for listed securities on the Irish Stock Exchange/Euronext Dublin and the London Stock Exchange on 11 December 2017 following the Scheme of Arrangement becoming effective (note 46). See note 54 'Related Party Transactions – Relationship with the Irish Government'.

(c) AIB Group plc capital reduction

This involved the reduction of the nominal value of the ordinary shares from € 2.47 per share to € 0.625 per share. The capital reduction which created € 5,008 million in distributable reserves became effective on 14 December 2017.

47 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 € 325 million at 31 December 2018 (2017: € 534 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 2018, € 609 million (2017: € 522 million) of CSAs are included within financial assets and € 266 million (2017: € 193 million) of CSAs are included within financial liabilities.

47 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 2018 and 2017:

					Related amounts not offset in the statement of financial position		2018
Financial assets	**Note**	**Gross amounts of recognised financial assets € m**	**Gross amounts of recognised financial liabilities offset in the statement of financial position € m**	**Net amounts of financial assets presented in the statement of financial position € m**	**Financial instruments € m**	**Financial collateral (including cash collateral) received € m**	**Net amount € m**
Derivative financial instruments	24	586	–	586	(325)	(201)	60
Loans and advances to banks –							
Reverse repurchase agreements	25	3,500	(3,500)	–	–	–	–
Total		4,086	(3,500)	586	(325)	(201)	60

					Related amounts not offset in the statement of financial position		2018
Financial liabilities	**Note**	**Gross amounts of recognised financial liabilities € m**	**Gross amounts of recognised financial assets offset in the statement of financial position € m**	**Net amounts of financial liabilities presented in the statement of financial position € m**	**Financial instruments € m**	**Financial collateral (including cash collateral) pledged € m**	**Net amount € m**
Deposits by central banks and banks –							
Securities sold under agreements to repurchase	35	3,645	(3,500)	145	(157)	(16)	(28)
Customer accounts –							
Securities sold under agreements to repurchase	36	1	–	1	(1)	–	–
Derivative financial instruments	24	875	–	875	(325)	(544)	6
Total		4,521	(3,500)	1,021	(483)	(560)	(22)

47 Offsetting financial assets and financial liabilities *(continued)*

		2017					
					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	24	776	–	776	(534)	(193)	49
Loans and advances to banks –							
Reverse repurchase agreements	25	1,703	(1,700)	3	(3)	–	–
Loans and advances to customers –							
Reverse repurchase agreements	26	19	–	19	(19)	–	–
Total		2,498	(1,700)	798	(556)	(193)	49

		2017					
					Related amounts not offset in the statement of financial position		
Financial liabilities	**Note**	Gross amounts of recognised financial liabilities € m	Gross amounts of recognised financial assets offset in the statement of financial position € m	Net amounts of financial liabilities presented in the statement of financial position € m	Financial instruments € m	Financial collateral (including cash collateral) pledged € m	Net amount € m
Deposits by central banks and banks –							
Securities sold under agreements to repurchase	35	2,601	(1,700)	901	(928)	1	(26)
Customer accounts –							
Securities sold under agreements to repurchase	36	81	–	81	(83)	–	(2)
Derivative financial instruments	24	1,098	–	1,098	(534)	(522)	42
Total		3,780	(1,700)	2,080	(1,545)	(521)	14

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured on the following bases:

- derivative assets and liabilities – fair value;
- loans and advances to banks – amortised cost;
- loans and advances to customers – amortised cost and FVTPL;
- deposits by central banks and banks – amortised cost; and
- customer accounts – amortised cost.

47 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 2018 and 2017:

				2018
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	586	Derivative financial instruments	900	314
Loans and advances to banks – Reverse repurchase agreements	–	Loans and advances to banks	1,443	1,443
Loans and advances to customers – Reverse repurchase agreements	–	Loans and advances to customers	60,868	60,868

				2018
Financial liabilities	**Net amounts of financial liabilities presented in the statement of financial position € m**	**Line item in statement of financial position**	**Carrying amount in statement of financial position € m**	**Financial liabilities not in scope of offsetting disclosures € m**
Deposits by central banks and banks – Securities sold under agreements to repurchase	145	Deposits by central banks and banks	844	699
Customer accounts – Securities sold under agreements to repurchase	1	Customer accounts	67,699	67,698
Derivative financial instruments	875	Derivative financial instruments	934	59

				2017
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	776	Derivative financial instruments	1,156	380
Loans and advances to banks – Reverse repurchase agreements	3	Loans and advances to banks	1,313	1,310
Loans and advances to customers – Reverse repurchase agreements	19	Loans and advances to customers	59,993	59,974

				2017
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
Deposits by central banks and banks – Securities sold under agreements to repurchase	901	Deposits by central banks and banks	3,640	2,739
Customer accounts – Securities sold under agreements to repurchase	81	Customer accounts	64,572	64,491
Derivative financial instruments	1,098	Derivative financial instruments	1,170	72

48 Memorandum items: contingent liabilities and commitments, and contingent assets

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk to meet the financing needs of customers. These instruments involve, to varying degrees, elements of credit risk which are not reflected in the consolidated statement of financial position. Credit risk is defined as the possibility of sustaining a loss because the other party to a financial instrument fails to perform in accordance with the terms of the contract.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and risk management policies in undertaking off-balance sheet commitments as it does for 'on- balance sheet lending'.

The following table gives the nominal or contract amounts of contingent liabilities and commitments:

	Contract amount	
	2018 € m	2017 € m
Contingent liabilities[1] – credit related		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	**627**	612
Other contingent liabilities	**153**	268
	780	880
Commitments[2]		
Documentary credits and short-term trade-related transactions	**91**	63
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year[3]	**7,932**	7,543
1 year and over[4]	**3,084**	2,625
	11,107	10,231
	11,887	11,111

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

[2]A commitment is an off-balance sheet product, where there is an agreement to provide an undrawn credit facility. The contract may or may not be cancelled unconditionally at any time without notice depending on the terms of the contract.

[3]An original maturity of up to and including 1 year or which may be cancelled at any time without notice.

[4]An original maturity of more than 1 year.

For details of the internal credit ratings and geographic concentration of contingent liabilities and commitments, see pages 96 and 98 in the 'Risk management' section of this report.

Provisions for ECLs on loan commitments and financial guarantee contracts are set out in note 40.

Notes to the consolidated financial statements

48 Memorandum items: contingent liabilities and commitments, and contingent assets *(continued)*

Legal proceedings

The Group, in the course of its business, is frequently involved in litigation cases. However, it is not, nor has been involved in, nor are there, so far as the Group is aware, (other than as set out in the following paragraphs), pending or threatened by or against the Group any legal or arbitration proceedings, including governmental proceedings, which may have, or have had during the previous twelve months, a material effect on the financial position, profitability or cash flows of the Group.

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.

In addition, litigation has been served on the Group by customers that are pursuing claims in relation to tracker mortgages. Further cases may be served in the future in relation to tracker mortgages.

Based on the facts currently known and the current stages that the investigations and litigation are at, it is not practicable at this time to predict the final outcome of these investigations and litigation, nor the timing and possible impact, including any monetary penalties, on the Group.

Contingent liability/contingent asset - NAMA

The Group has provided NAMA with a series of indemnities relating to transferred assets. Any indemnity payment would result in an outflow of economic benefit for the Group.

Participation in TARGET 2 – Ireland

AIB participates in the TARGET 2-Ireland system, the Irish component of TARGET 2, which is the real time gross settlement system for large volume interbank payments in euro. The following disclosures relate to charges provided by AIB to secure its payment obligations arising from participation in TARGET 2.

On 15 February 2008, AIB executed a deed of charge pursuant to which it created a first floating charge in favour of the Central Bank of Ireland (Central Bank) over all of its right, title, interest and benefit, present and future, in and to the balances then or at any time standing to the accounts held by AIB with any Eurosystem central bank for the purpose of participation in TARGET 2.

In addition, AIB and the Central Bank entered into a Framework Agreement in respect of Eurosystem Operations (dated 7 April 2014), which include the credit line facility for intra-day credit in TARGET 2-Ireland. In order to secure its obligations under the Framework Agreement, AIB executed a deed of charge (dated 7 April 2014). Pursuant to the deed, AIB created a first fixed charge in favour of the Central Bank over all of its right, title, interest and benefit, present and future, in and to eligible assets (as identified as such by the Central Bank) which are held in a designated collateral account.

Both deeds of charge contain provisions that during the subsistence of the security, otherwise than with the prior written consent of the Central Bank, AIB shall not:

(a) create or attempt to create or permit to arise or subsist any encumbrance on or over the charged property or any part thereof; or

(b) otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the property subject to the floating charge or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

In addition, under the 2014 charge, AIB undertakes not to sell, transfer, lend or otherwise dispose of or deal in the assets subject to the fixed charge or any part thereof or, in each case, attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

49 Subsidiaries and consolidated structured entities

The following are the material subsidiary companies of the Group at 31 December 2018 and 2017:

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	Republic of Ireland	Bankcentre, Ballsbridge, Dublin 4, Ireland.
AIB Mortgage Bank	Issue of mortgage covered securities – a licensed bank	Republic of Ireland	Bankcentre, Ballsbridge, Dublin 4, Ireland.
EBS d.a.c.	Mortgages and savings – a licensed bank	Republic of 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 First Trust Bank in Northern Ireland	Banking and financial services – a licensed bank	Northern Ireland	92 Ann Street, Belfast BT1 3AY.

The proportion of ownership interest and voting power held by AIB Group plc in Allied Irish Banks, p.l.c. is 100%. All subsidiaries of Allied Irish Banks, p.l.c. being the immediate subsidiary of AIB Group plc, are wholly owned and there are no non-controlling interests in these subsidiaries. Practically all subsidiaries in the Group are involved in the provision of financial services or ancillary services.

Significant restrictions

Each of the subsidiaries listed above which is a licensed bank is required by its respective financial regulator to maintain capital ratios above a certain minimum level. These minimum ratios restrict the payment of dividend by the subsidiary and, where the ratios fall below the minimum requirement, will require the parent company to inject capital to make up the shortfall.

Consolidated structured entities

The Group has acted as sponsor and invested in a number of special purpose entities ("SPEs") in order to generate funding for the Group's lending activities (with the exception of AIB PFP Scottish Limited Partnership). The Group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity.

The following SPEs are consolidated by the Group:
- Emerald Mortgages No. 4 Public Limited Company (liquidator appointed in 2017);
- Emerald Mortgages No. 5 d.a.c.;
- Mespil 1 RMBS d.a.c.;
- AIB PFP Scottish Limited Partnership.

Further details on these SPEs are set out in note 50.

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

The Group has no interests in unconsolidated structured entities.

Notes to the consolidated financial statements

50 Off-balance sheet arrangements and transferred financial assets

Under IFRS, transactions and events are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. As a result, the substance of transactions with a special purpose entity ("SPE") forms the basis for their treatment in the Group's financial statements. An SPE is consolidated in the financial statements when the substance of the relationship between the Group and the SPE indicates that the SPE is controlled by the entity and meets the criteria set out in IFRS 10 *Consolidated Financial Statements.* The principal forms of SPE utilised by the Group are securitisations and employee compensation trusts.

Securitisations

The Group utilises securitisations primarily to support the following business objectives:
– as an investor, the Group has primarily been an investor in securitisations issued by other credit institutions as part of the management of its interest rate and liquidity risks through the Treasury function;
– as an investor, securitisations have been utilised by the Group to invest in transactions that offered an appropriate risk-adjusted return opportunity; and
– as an originator of securitisations to support the funding activities of the Group.

The Group controls certain special purpose entities which were set up to support its funding activities. Details of these special purpose entities are set out below under the heading 'Special purpose entities'. The Group controls two special purpose entities set up in relation to the funding of the Group Pension Schemes which are also detailed below.

Stock borrowing and lending

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss is included in trading income.

Employee compensation trusts

The Group and some of its subsidiary companies use trust structures to benefit employees and to facilitate the ownership of the Group's equity by employees. The Group consolidates these trust structures where the risks and rewards of the underlying shares have not been transferred to the employees. All outstanding shares held by Trustees were disposed of during 2018 (note 43 'Own shares').

Transfer of financial assets

The Group enters into transactions in the normal course of business in which it transfers previously recognised financial assets. Transferred financial assets may, in accordance with IFRS 9 *Financial Instruments:*
(i) continue to be recognised in their entirety; or
(ii) be derecognised in their entirety but the Group retains some continuing involvement.

The most common transactions where the transferred assets are not derecognised in their entirety are sale and repurchase agreements, issuance of covered bonds and securitisations.

(i) Transferred financial assets not derecognised in their entirety

Sale and repurchase agreements/securities lending

Sale and repurchase agreements are transactions in which the Group sells a financial asset to another party, with an obligation to repurchase it at a fixed price on a certain later date. The Group continues to recognise the financial assets in full in the statement of financial position as it retains substantially all the risks and rewards of ownership. The Group's sale and repurchase agreements are with banks and customers. The obligation to pay the repurchase price is recognised within 'Deposits by central banks and banks' (note 35) and 'Customer accounts' (note 36). As the Group sells the contractual rights to the cash flows of the financial assets, it does not have the ability to use or pledge the transferred assets during the term of the sale and repurchase agreement. The Group remains exposed to credit risk and interest rate risk on the financial assets sold. Details of sale and repurchase activity are set out in notes 35 and 36. The obligation arising as a result of sale and repurchase agreements together with the carrying value of the financial assets pledged are set out in the table below.

The Group enters into securities lending in the form of collateral swap agreements with other parties. The Group continues to recognise the financial assets in full in the statement of financial position as it retains substantially all the risks and rewards of ownership. As a result of these transactions, the Group is unable to use, sell or pledge the transferred assets for the duration of the transaction. A fee is generated for the Group under this transaction.

Issuance of covered bonds

Covered bonds, which the Group issues, are debt securities backed by cash flows from mortgages for the purpose of financing loans secured on residential property through its wholly owned subsidiaries, AIB Mortgage Bank and EBS Mortgage Finance. The Group retains all the risks and rewards of these mortgage loans, including credit risk and interest rate risk, and therefore, the loans continue to

50 Off-balance sheet arrangements and transferred financial assets *(continued)*

Issuance of covered bonds *(continued)*

be recognised on the Group's statement of financial position with the related covered bonds held by external investors included within 'Debt securities in issue' (note 38). As the Group segregates the assets which back these debt securities into "cover asset pools" it does not have the ability to otherwise use such segregated financial assets during the term of these debt securities. However, of the total debt securities of this type issued amounting to € 12.5 billion, internal Group companies hold € 9.4 billion which are eliminated on consolidation.

Special purpose entities

Securitisations are transactions in which the Group sells loans and advances to customers (mainly mortgages) to special purpose entities ("SPEs"), which, in turn, issue notes to external investors. The notes issued by the SPEs are on terms which result in the Group retaining the majority of ownership risks and rewards and therefore, the loans continue to be recognised in the Group's statement of financial position. The Group remains exposed to credit risk, interest rate risk and foreign exchange risk on the loans sold. The liability in respect of the cash received from the external investors is included within 'Debt securities in issue' (note 38). Under the terms of the securitisations, the rights of the investors are limited to the assets in the securitised portfolios and any related income generated by the portfolios, without further recourse to the Group. The Group does not have the ability to otherwise use the assets transferred as part of securitisation transactions during the term of the arrangement.

Arising from the acquisition of EBS on 1 July 2011, the Group controls three special purpose entities which had previously been set up by EBS: Emerald Mortgages No. 4 Public Limited Company; Emerald Mortgages No. 5 d.a.c.; and Mespil 1 RMBS d.a.c.

Emerald Mortgages No. 4 Public Limited Company

A liquidator was appointed to this company in December 2017 following the redemption of all outstanding loan notes.

Emerald Mortgages No. 5 d.a.c.

The total carrying amount of original residential mortgages transferred by EBS d.a.c. to Emerald Mortgages No.5 d.a.c. ('Emerald 5') as part of the securitisation amounted to € 2,500 million. The carrying amount of transferred secured loans that the Group has recognised at 31 December 2018 is € 967 million (2017: € 1,084 million). Bonds were issued by Emerald 5 to EBS d.a.c. but these are not shown in the Group's financial statements as they are eliminated on consolidation.

Mespil 1 RMBS d.a.c.

The total carrying amount of secured loans that the Group has recognised at 31 December 2018 is € 636 million (2017: € 684 million) in relation to the transfers from EBS d.a.c. and Haven Mortgages Limited to Mespil 1 RMBS d.a.c. The bonds issued by Mespil 1 RMBS d.a.c. to EBS d.a.c. are not shown in the Group's financial statements, as these bonds are eliminated on consolidation.

Notes to the consolidated financial statements

50 Off-balance sheet arrangements and transferred financial assets *(continued)*

The following table summarises the carrying value and fair value of financial assets at 31 December 2018 and 2017 which did not qualify for derecognition together with their associated financial liabilities:

2018	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	3,285[1] [2]	146[1]	–	3,285	146	–	3,139
Covered bond programmes							
Residential mortgage backed	4,298[3]	3,090	–	4,234	3,183	–	1,051

2017	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	2,718[1] [2]	982[1]	–	2,718	982	–	1,736
Covered bond programmes							
Residential mortgage backed	6,543[3]	3,590	–	6,245	3,728	–	2,517

[1]See notes 35 and 36.

[2]Includes € 3,084 million of assets pledged in relation to securities lending arrangements (2017: € 1,681 million).

[3]The asset pools € 18 billion (2017: € 18 billion) in the covered bond programme have been apportioned on a pro-rata basis in relation to the value of bonds held by external investors and those held by the Group companies. The € 4,298 million (2017: € 6,543 million) above refers to those assets apportioned to external investors.

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 future funding period was extended from 8 to 16 years, commencing in 2016 with the implementation of an asset backed funding arrangement.

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 entitle 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 triennial valuation in December 2014, the current annual payments were set at £ 19.1 million per annum, commencing 1 April 2016, but subject to review following each future triennial valuation. It has been agreed with the Trustees of the UK Scheme to extend the deadline for completing the triennial valuation into 2019.

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.

50 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 2018, the Group recognised € 0.8 million (cumulative € 6.9 million) (2017: € 0.8 million (cumulative € 6.1 million)) in the income statement for the servicing of the loans and advances transferred.

NAMA

During 2010 and 2011, AIB transferred financial assets with a net carrying value of € 15,428 million to NAMA. All assets transferred were derecognised in their entirety.

As part of this transaction, the Group has provided NAMA with a series of indemnities relating to the transferred assets. Also, on the dissolution or restructuring of NAMA, the Irish Minister for Finance ('the Minister') may require a report and accounts to be prepared. If NAMA reports an aggregate loss since its establishment and this is unlikely to be made good, the Minister may impose a surcharge on the participating institution. This will involve apportioning the loss on the participating institution, subject to certain restrictions, on the basis of the book value of the assets transferred by the institution in relation to the total book value of assets transferred by all participating institutions. At this stage, it is not possible to quantify the exposure to loss, if any, which may arise on the dissolution or restructuring of NAMA.

In addition, the Group was appointed by NAMA as a service provider for the loans and advances transferred, for which it receives a fee. The fee is based on the lower of actual costs incurred or 0.1% of the value of the financial assets transferred. The Group has not recognised a servicing asset/liability in relation to this servicing arrangement. In 2018, the Group recognised € 3 million (cumulative € 91 million) (2017: € 2 million (cumulative € 88 million)) in the income statement for the servicing of financial assets transferred to NAMA.

51 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 (m) and financial liabilities in note 1 (n), describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses at 31 December 2018 the carrying amounts of the financial assets and financial liabilities by measurement category as defined in IFRS 9 *Financial Instruments* and by statement of financial position heading. Comparative data for 31 December 2017 has been prepared under IAS 39.

	At fair value through profit or loss	At fair value through other comprehensive income			At amortised cost		2018 Total
	Mandatorily	Debt investments	Equity investments	Cash flow hedge derivatives	Loans and advances	Other	
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets							
Cash and balances at central banks	–	–	–	–	5,908	608[1]	6,516
Items in course of collection	–	–	–	–	73	–	73
Derivative financial instruments	656[2]	–	–	244	–	–	900
Loans and advances to banks	–	–	–	–	1,443	–	1,443
Loans and advances to customers	147	–	–	–	60,721	–	60,868
Investment securities	260	15,946	468	–	–	187	16,861
Other financial assets	–	–	–	–	–	640	640
	1,063	15,946	468	244	68,145	1,435	87,301
Financial liabilities							
Deposits by central banks and banks	–	–	–	–	–	844	844
Customer accounts	–	–	–	–	–	67,699	67,699
Derivative financial instruments	738[3]	–	–	196	–	–	934
Debt securities in issue	–	–	–	–	–	5,745	5,745
Subordinated liabilities and other capital instruments	–	–	–	–	–	795	795
Other financial liabilities	–	–	–	–	–	1,075	1,075
	738	–	–	196	–	76,158	77,092

[1]Comprises cash on hand.

[2]Held for trading € 517 million and fair value hedges € 139 million.

[3]Held for trading € 534 million and fair value hedges € 204 million.

51 Classification and measurement of financial assets and financial liabilities *(continued)*

	At fair value through profit or loss		At fair value through equity		At amortised cost		2017 Total
	Held for trading €m	Fair value hedge derivatives €m	Cash flow hedge derivatives €m	Available for sale securities €m	Loans and advances €m	Other €m	€m
Financial assets							
Cash and balances at central banks	–	–	–	–	5,731	633[1]	6,364
Items in course of collection	–	–	–	–	103	–	103
Trading portfolio financial assets	33	–	–	–	–	–	33
Derivative financial instruments	613	125	418	–	–	–	1,156
Loans and advances to banks	–	–	–	–	1,313	–	1,313
Loans and advances to customers	–	–	–	–	59,993	–	59,993
Financial investments available for sale	–	–	–	16,321	–	–	16,321
Other financial assets	–	–	–	–	–	736	736
	646	125	418	16,321	67,140	1,369	86,019
Financial liabilities							
Deposits by central banks and banks	–	–	–	–	–	3,640	3,640
Customer accounts	–	–	–	–	–	64,572	64,572
Trading portfolio financial liabilities	30	–	–	–	–	–	30
Derivative financial instruments	663	257	250	–	–	–	1,170
Debt securities in issue	–	–	–	–	–	4,590	4,590
Subordinated liabilities and other capital instruments	–	–	–	–	–	793	793
Other financial liabilities	–	–	–	–	–	1,061	1,061
	693	257	250	–	–	74,656	75,856

[1]Comprises cash on hand.

Notes to the consolidated financial statements

52 Fair value of financial instruments

The term 'financial instruments' includes both financial assets and financial liabilities. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The Group's accounting policy for the 'determination of fair value of financial instruments' is set out in accounting policy number 1 (p).

The valuation of financial instruments, including loans and advances, involves the application of judgement and estimation. Market and credit risks are key assumptions in the estimation of the fair value of loans and advances. The Group has estimated the fair value of its loans to customers taking into account market risk and the changes in credit quality of its borrowers.

Fair values are based on observable market prices where available, and on valuation models or techniques where the lack of market liquidity means that observable prices are unavailable. The fair values of financial instruments are measured according to the following fair value hierarchy that reflects the observability of significant market inputs:

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

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

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

All financial instruments are initially recognised at fair value. Financial instruments held for trading, those whose contractual terms do not give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI"), and financial instruments in fair value hedge relationships are subsequently measured at fair value through profit or loss. Financial assets in a held-to-collect-and-sell business model which pass the SPPI test and cash flow hedge derivatives are subsequently measured at fair value through other comprehensive income ('FVOCI').

All valuations are carried out within the Finance function of the Group 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 2018.

The methods used for calculation of fair value in 2018 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. CVA is calculated as: (Option replacement cost x probability of default ("PD") x loss given default ("LGD")). PDs are derived from market based Credit Default Swap ("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 unsecured counterparties, an LGD of 60% is applied (2017: 60%).

52 Fair value of financial instruments *(continued)*

The Group applies a FVA in calculating the fair value of uncollateralised derivative contracts. The application of the FVA in the valuation of uncollateralised derivative contracts introduces the use of a funding curve for discounting of cash flows where market participants consider that this cost is included in market pricing. The funding curve used is the average funding curve implied by the Credit Default Swaps ("CDS") of the Group's most active external derivative counterparties. The logic in applying this curve is to best estimate the FVA which a counterparty would apply in a transaction to close out the Group's existing positions. The application of FVA, while an overall negative adjustment, contains within it the benefit of own credit.

Within the range of estimates and fair value sensitivity measurements, a favourable and an adverse scenario have been selected for PDs and LGDs for CVA. The favourable/adverse scenario for customer PDs are (i) a single rating upgrade and (ii) a single rating downgrade, respectively. Customer LGDs are shifted according to estimates of improvement in value of security compared with potential derivatives market values. Within the combination of LGD and PD, both are shifted together yielding positive and negative valuations which are disclosed as potential alternative valuations on page 347. 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 the funding curve.

The combination of CVA and FVA is referred to as XVA.

Investment securities

The fair value of investment securities has been estimated based on expected sale proceeds. The expected sale proceeds are based on screen bid prices which have been analysed and compared across multiple sources for reliability. Where screen prices are unavailable, fair values are estimated by valuation techniques using observable market data for similar instruments. Where there is no market data for a directly comparable instrument, management judgement on an appropriate credit spread to similar or related instruments with market data available is used within the valuation technique. This is supported by cross referencing other similar or related instruments.

Loans and advances to customers

The Group provides lending facilities of varying rates and maturities to corporate and personal customers.

Valuation techniques are used in estimating the fair value of loans, primarily using discounted cash flows and applying market rates where practicable and taking credit risk into account .

In addition to the assumptions set out above under valuation techniques regarding cash flows and discount rates, a key assumption for loans and advances is that the carrying amount of variable rate loans (excluding mortgage products) approximates to market value where there is no significant credit risk of the borrower. For fixed rate loans, the fair value is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in that portfolio.

The fair value of mortgage products, including tracker mortgages, is calculated by discounting expected cash flows using discount rates that reflect the interest rate/credit risk in the portfolio.

The majority of loans and advances to customers are held at amortised cost, however, the Group has a small number of loans and advances which are required to be measured at fair value through profit or loss ('FVTPL') having failed the SPPI test. The valuation techniques used apply equally to those held at FVTPL and those held at amortised cost.

Financial instruments not measured at fair value but with fair value information presented separately in the notes to the financial statements

Loans and advances to banks

The fair value of loans and advances to banks is estimated using discounted cash flows applying either market rates, where practicable, or rates currently offered by other financial institutions for placings with similar characteristics.

Loans and advances to customers at amortised cost

See methodology under the heading 'Loans and advances to customers'.

52 Fair value of financial instruments *(continued)*

Deposits by central banks and banks and customer accounts

The fair value of current accounts and deposit liabilities which are repayable on demand, or which re-price frequently, approximates to their book value. The fair value of all other deposits and other borrowings is estimated using discounted cash flows applying either market rates, where applicable, or interest rates currently offered by the Group.

Subordinated liabilities and debt securities in issue

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

Other financial assets and other financial liabilities

This caption includes accrued interest receivable and payable and other receivables (including amounts awaiting settlement and accounts payable). The carrying amount is considered representative of fair value.

Commitments pertaining to credit-related instruments

Details of the various credit-related commitments and other off-balance sheet financial guarantees entered into by the Group are included in note 48. 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 2018 and 2017:

52 Fair value of financial instruments *(continued)*

					2018
	Carrying amount	Fair value			
		Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
	€ m	€ m	€ m	€ m	€ m
Financial assets measured at fair value					
Derivative financial instruments:					
Interest rate derivatives	848	–	489	359	848
Exchange rate derivatives	38	–	38	–	38
Equity derivatives	14	–	14	–	14
Loans and advances to customers at FVTPL	147	–	–	147	147
Investment debt securities at FVOCI:					
Government securities	8,361	8,361	–	–	8,361
Supranational banks and government agencies	1,132	1,132	–	–	1,132
Asset backed securities	367	284	83	–	367
Bank securities	5,822	5,755	67	–	5,822
Corporate securities	264	224	31	9	264
Equity investments at FVOCI	468	–	–	468	468
Equity investments at FVTPL	260	23	1	236	260
	17,721	15,779	723	1,219	17,721
Financial assets not measured at fair value					
Cash and balances at central banks	6,516	608[1]	5,908	–	6,516
Items in the course of collection	73	–	–	73	73
Loans and advances to banks	1,443	–	589	854	1,443
Loans and advances to customers:					
Mortgages[2]	31,715	–	–	30,656	30,656
Non-mortgages	29,006	–	–	29,095	29,095
Total loans and advances to customers	60,721	–	–	59,751	59,751
Investment debt securities at amortised cost	187	–	–	184	184
Other financial assets	640	–	–	640	640
	69,580	608	6,497	61,502	68,607
Financial liabilities measured at fair value					
Derivative financial instruments:					
Interest rate derivatives	901	–	779	122	901
Exchange rate derivatives	24	–	24	–	24
Equity derivatives	5	–	5	–	5
Credit derivatives	4	–	4	–	4
	934	–	812	122	934
Financial liabilities not measured at fair value					
Deposits by central banks and banks:					
Other borrowings	420	–	175	245	420
Secured borrowings	424	–	274	145	419
Customer accounts:					
Current accounts	36,853	–	–	36,853	36,853
Demand deposits	15,728	–	–	15,728	15,728
Time deposits	15,117	–	–	15,146	15,146
Securities sold under agreements to repurchase	1	–	–	1	1
Debt securities in issue	5,745	5,717	101	–	5,818
Subordinated liabilities and other capital instruments	795	762	76	–	838
Other financial liabilities	1,075	–	–	1,075	1,075
	76,158	6,479	626	69,193	76,298

[1]Comprises cash on hand.

[2]Includes residential and commercial mortgages.

Notes to the consolidated financial statements

52 Fair value of financial instruments *(continued)*

					2017
	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					
Trading portfolio financial assets:					
Debt securities	33	32	1	–	33
Derivative financial instruments:					
Interest rate derivatives	1,094	–	667	427	1,094
Exchange rate derivatives	29	–	29	–	29
Equity derivatives	33	–	33	–	33
Financial investments available for sale:					
Government securities	9,588	9,588	–	–	9,588
Supranational banks and government agencies	1,368	1,368	–	–	1,368
Asset backed securities	294	278	16	–	294
Bank securities	4,336	4,336	–	–	4,336
Corporate securities	56	56	–	–	56
Equity securities	679	16	1	662	679
	17,510	15,674	747	1,089	17,510
Financial assets not measured at fair value					
Cash and balances at central banks	6,364	633[1]	5,731	–	6,364
Items in the course of collection	103	–	–	103	103
Loans and advances to banks	1,313	–	536	777	1,313
Loans and advances to customers:					
Mortgages[2]	32,424	–	–	30,865	30,865
Non-mortgages	27,569	–	–	27,318	27,318
Total loans and advances to customers	59,993	–	–	58,183	58,183
Other financial assets	736	–	–	736	736
	68,509	633	6,267	59,799	66,699
Financial liabilities measured at fair value					
Trading portfolio financial liabilities:					
Debt securities	30	30	–	–	30
Derivative financial instruments:					
Interest rate derivatives	1,092	–	973	119	1,092
Exchange rate derivatives	34	–	34	–	34
Equity derivatives	35	–	35	–	35
Credit derivatives	9	–	9	–	9
	1,200	30	1,051	119	1,200
Financial liabilities not measured at fair value					
Deposits by central banks and banks:					
Other borrowings	839	–	500	339	839
Secured borrowings	2,801	–	1,905	901	2,806
Customer accounts:					
Current accounts	33,179	–	–	33,179	33,179
Demand deposits	14,007	–	–	14,007	14,007
Time deposits	17,305	–	–	17,348	17,348
Securities sold under agreements to repurchase	81	–	–	81	81
Debt securities in issue:					
Bonds and medium term notes	4,590	4,653	108	–	4,761
Subordinated liabilities and other capital instruments	793	819	78	–	897
Other financial liabilities	1,061	–	–	1,061	1,061
	74,656	5,472	2,591	66,916	74,979

[1]Comprises cash on hand.

[2]Includes residential and commercial mortgages.

52 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 2018 and 2017.

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:

								2018
	Financial assets						Financial liabilities	
	Derivatives	Investment securities		Loans and advances	Equities at	Total	Derivatives	Total
		Debt	Equities at FVOCI	at FVTPL	FVTPL			
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 31 December 2017	427	–	662	–	–	1,089	119	119
IFRS 9 transition adjustments at 1 January 2018	–	–	(196)	156	196	156	–	–
Transfers into/out of level 3[1]	–	–	–	–	–	–	–	–
Total gains or (losses) in:								
Profit or loss:								
Net trading income	(68)	–	–	–	–	(68)	3	3
Net change in FVTPL	–	–	–	105	41	146	–	–
	(68)	–	–	105	41	78	3	3
Other comprehensive income:								
Net change in fair value of investment securities	–	–	2	–	–	2	–	–
Net change in fair value of cash flow hedges	–	–	–	–	–	–	–	–
	–	–	2	–	–	2	–	–
Purchases/additions	–	9	–	32	21	62	–	–
Sales/disposals	–	–	–	(53)	(22)	(75)	–	–
Settlements	–	–	–	–	–	–	–	–
Cash received:								
Principal	–	–	–	(93)	–	(93)	–	–
At 31 December 2018	359	9	468	147	236	1,219	122	122

[1]Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred. There were no transfers into/out of Level 3 during 2018.

52 Fair value of financial instruments *(continued)*
Reconciliation of balances in Level 3 of the fair value hierarchy

	Financial assets			Financial liabilities	2017
	Derivatives	Available for sale equity securities	Total	Derivatives	Total
	€ m	€ m	€ m	€ m	€ m
At 1 January	509	604	1,113	161	161
Transfers into Level 3[1]	2	–	2	–	–
Transfers out of Level 3[1]	(7)	–	(7)	–	–
Total gains or (losses) in:					
Profit or loss					
Net trading income	(74)	–	(74)	(30)	(30)
Other operating income	–	48	48	–	–
	(74)	48	(26)	(30)	(30)
Other comprehensive income					
Net change in fair value of financial investments available for sale	–	5	5	–	–
Net change in fair value of cash flow hedges	(3)	–	(3)	(9)	(9)
	(3)	5	2	(9)	(9)
Purchases/additions	–	56	56	–	–
Sales/disposals	–	(51)	(51)	–	–
Settlements	–	–	–	(3)	(3)
At 31 December	427	662	1,089	119	119

[1]Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

Net transfers out of Level 3 are a function of the observability of inputs into instrument valuations.

Transfers into Level 3 arose as the measurement of fair value for a particular agreement relied mainly on unobservable data.

The table below sets out the total gains or losses included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at 31 December 2018 and 2017:

	2018	2017
	€ m	€ m
Net trading income – gains	**40**	46
Gains on equity investments at FVTPL	**41**	–
Gains on loans and advances at FVTPL	**22**	–
	103	46

52 Fair value of financial instruments *(continued)*

Significant unobservable inputs

The table below sets out information about significant unobservable inputs used for the years ended 31 December 2018 and 2017 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

		Fair Value				Range of estimates	
Financial instrument		**31 December 2018 € m**	31 December 2017 € m	**Valuation technique**	**Significant unobservable input**	**31 December 2018**	31 December 2017
Uncollateralised customer derivatives	Asset	**359**	427	CVA	LGD	**43% – 67% (Base 54%)**	41% – 65% (Base 53%)
	Liability	**122**	119		PD	**0.4% – 1.1% (Base 0.7% 1 year PD)**	0.6% – 1.3% (Base 0.9% 1 year PD)
				FVA	Funding spreads	**(0.3%) to 0.6%**	(0.3%) to 0.3%
NAMA subordinated bonds	Asset	**468**	466	Discounted cash flows	Discount rate	**1% – 5% (Base 2.49%)**	2.79% – 6.0% (Base 3.98%)
Visa Inc. Series B Preferred Stock	Asset	**109**	92	Quoted market price (to which a discount has been applied)	Final conversion rate	**0% – 80%**	0% –90%
Loans and advances to customers measured at FVTPL	Asset	**147**	–	Discounted cash flows*	Discount on market value	**(3%) – 12%**	–
				Collateral values	Collateral changes	**0% – 6%**	–

*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 2018 ranges from (i) negative € 35 million to positive € 19 million for CVA (31 December 2017: negative € 39 million to positive € 23 million) and (ii) negative € 10 million to positive € 5 million for FVA (31 December 2017: negative € 7 million to positive € 6 million).

A number of other derivatives are subject to valuation methodologies which use unobservable inputs. As the variability of the valuation is not greater than € 1 million in any individual case or collectively, the detail is not disclosed here.

NAMA subordinated bonds

The fair value measurement sensitivity to unobservable discount rates ranges from negative € 14 million to positive € 9 million at 31 December 2018 (31 December 2017: negative € 18 million to positive € 12 million).

Visa Inc. Series B Preferred Stock

In June 2016, the Group received Series B Preferred Stock in Visa Inc. with a fair value of € 65 million as part consideration for its holding of shares in Visa Europe. The preferred stock will be convertible into Class A Common Stock of Visa Inc. at some point in the future. The conversion is subject to certain Visa Europe litigation risks that may affect the ultimate conversion rate. In addition, the stock, being denominated in US dollars, is subject to foreign exchange risk.

- **Valuation technique**: Quoted market price of Visa Inc. Class A Common Stock to which a discount has been applied for the illiquidity and the conversion rate variability of the preferred stock of Visa Inc. 45% haircut (2017: 45%). This was converted at the year end exchange rate.
- **Unobservable input**: Final conversion rate of Visa Inc. Series B Preferred Stock into Visa Inc. Class A Common Stock.
- **Range of estimates**: Estimates range from (a) no discount for conversion rate variability with a discount for illiquidity only; to (b) 80% discount for conversion rate variability.

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 € 13 million at 31 December 2018.

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.

Notes to the consolidated financial statements

52 Fair value of financial instruments *(continued)*

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 2018 and 2017:

				2018
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable € m	Unfavourable € m	Favourable € m	Unfavourable € m
Classes of financial assets				
Derivative financial instruments	**22**	**(43)**	**–**	**–**
Investment securities – equity	**40**[1]	**(60)**[1]	**9**	**(14)**
Loans and advances measured at FVTPL	**13**	**(2)**	**–**	**–**
Total	**75**	**(105)**	**9**	**(14)**
Classes of financial liabilities				
Derivative financial instruments	**1**	**(2)**	**–**	**–**
Total	**1**	**(2)**	**–**	**–**

[1]Relates to the largest equity investment, the carrying value of which was € 109 million at 31 December 2018. Sensitivity information has not been provided for other equities as the portfolio comprises several investments, none of which is individually material.

				2017
	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	28	(44)	–	–
Financial investments available for sale – equity securities	–	(59)	54	(49)
Total	28	(103)	54	(49)
Classes of financial liabilities				
Derivative financial instruments	1	(2)	–	–
Total	1	(2)	–	–

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.

53 Statement of cash flows

Non-cash and other items included in profit before taxation

Non-cash items	2018 € m	2017 € m
Profit on disposal of property	(2)	–
Loss on disposal of business	22	–
Net gain on derecognition of financial assets measured at amortised cost	(121)	(32)
Dividends received from equity investments	(26)	(28)
Dividends/distribution received from associated undertakings and joint venture	(10)	(9)
Associated undertakings and joint venture	(12)	(19)
Net credit impairment writeback	(84)	(113)
Net provisions for liabilities and commitments	–	(8)
Change in other provisions	117	95
Retirement benefits – defined benefit expense/(income)	8	(1)
Depreciation, amortisation and impairment	162	141
Interest on subordinated liabilities and other capital instruments	32	31
Gain on disposal of investment securities	(24)	(66)
Loss on termination of hedging swaps	9	11
Remeasurement of NAMA senior bonds	–	(4)
Amortisation of premiums and discounts	71	213
Fair value gain on re-estimation of cash flows on restructured loans	–	(72)
Net gain on equity investments measured at FVTPL	(41)	–
Net gain on loans and advances to customers at FVTPL	(22)	–
Change in prepayments and accrued income	5	(17)
Change in accruals and deferred income	(26)	(137)
Effect of exchange translation and other adjustments[1]	(16)	46
Total non-cash items	**42**	31
Contributions to defined benefit pension schemes	(72)	(64)
Dividends received from equity investments	26	28
Total other items	**(46)**	(36)
Non-cash and other items for the year ended 31 December	**(4)**	(5)

[1]The impact of foreign exchange translation for each line of the statement of financial position is removed in order to show the underlying cash impact.

Notes to the consolidated financial statements

53 Statement of cash flows *(continued)*

Change in operating assets[1]	2018 € m	2017 € m
Change in items in course of collection	30	28
Change in trading portfolio financial assets	33	(32)
Change in derivative financial instruments	94	43
Change in loans and advances to banks	(98)	114
Change in loans and advances to customers	(884)	10
Change in NAMA senior bonds	–	1,805
Change in other assets	85	(5)
	(740)	1,963

Change in operating liabilities[1]	2018 € m	2017 € m
Change in deposits by central banks and banks	(2,831)	(4,029)
Change in customer accounts	3,140	1,697
Change in trading portfolio financial liabilities	(30)	30
Change in debt securities in issue	1,151	(2,274)
Change in notes in circulation	(20)	(33)
Change in other liabilities	(104)	(84)
	1,306	(4,693)

[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.

Analysis of cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents comprise the following balances with less than three months maturity from the date of acquisition:

	2018 € m	2017 € m
Cash and balances at central banks	6,516	6,364
Loans and advances to banks[1]	730	694
	7,246	7,058

[1]Included in 'Loans and advances to banks' total of € 1,443 million (2017: € 1,313 million) set out in note 25.

The Group is required by law to maintain balances with the Bank of England. At 31 December 2018, these amounted to € 589 million (2017: € 536 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.

54 Related party transactions

Related parties in the Group include the parent company, AIB Group plc, subsidiary undertakings, associated undertakings, joint arrangements, post-employment benefits, Key Management Personnel and connected parties. The Irish Government is also considered a related party by virtue of its effective control of AIB. The immediate holding company and controlling party is AIB Group plc with its registered office at Bankcentre, Ballsbridge, Dublin 4. AIB Group plc became the group holding company on 8 December 2017 following a Scheme of Arrangement approved by shareholders at an Extraordinary General Meeting of Allied Irish Banks, p.l.c. held on 3 November 2017 (note 46).

(a) Transactions with Group and subsidiary undertakings

(i) Transactions with AIB Group plc

Under the Scheme of Arrangement noted above, Allied Irish Banks, p.l.c. is a wholly owned subsidiary of AIB Group plc.

The following transactions occurred between AIB Group plc and its subsidiary, Allied Irish Banks, p.l.c. during 2018. AIB Group plc as the lender, entered into the following loan agreements with Allied Irish Banks, p.l.c., as the borrower, whereby the obligations of the borrower were unsecured and subordinated:

- In March 2018, AIB Group plc lent € 500 million at an interest rate of 1.625% p.a. The loan is due to be repaid in full on the maturity date 29 March 2023, unless previously prepaid;
- In July 2018, AIB Group plc lent € 500 million at an interest rate of 2.375% p.a. The loan is due to be repaid in full on the maturity date 3 July 2025, unless previously prepaid; and
- In October 2018, AIB Group plc lent US $ 750 million at an interest rate of 4.875% p.a. The loan is due to be repaid in full on the maturity date 12 October 2023, unless previously prepaid.

Initial Subscribers Deed of Release and Indemnity

AIB Group plc, Allied Irish Banks, p.l.c. and MFSD Holding Limited and MFSD Nominees Limited (the latter two entities being the "AIB Group plc Initial Subscribers") entered into a deed of release and indemnity dated 21 September 2017 whereby, amongst other things (a) AIB Group plc agreed to effect the redemption at par and cancellation of the AIB Group plc Subscriber Shares within 12 months of the date of the deed; (b) AIB Group plc and the Initial AIB Group plc Subscribers agreed that the proceeds payable to the Initial AIB Group plc Subscribers on redemption of certain of the AIB Group plc Subscriber Shares will be set-off against the amounts owing by the Initial AIB Group plc Subscribers in connection with their original subscription for the AIB Group plc Subscriber Shares by way of undertaking to pay, which shall represent satisfaction in full of their respective obligations in connection with such redemption and subscription; and (c) AIB Group plc and Allied Irish Banks, p.l.c. have agreed to release the AIB Group plc Initial Subscribers from, and indemnify (on a joint and several basis) the AIB Group plc Initial Subscribers against, any claims or liability arising out of, or in connection with, any action taken or omission made by an AIB Group plc Initial Subscriber in its capacity as a shareholder of AIB Group plc or the holding by the AIB Group plc Initial Subscriber of shares in AIB Group plc or any action taken or omission made on the part of any AIB Group plc Initial Subscriber connected to the Scheme (note 42 for further details on Subscriber Shares). AIB Group plc redeemed these Subscriber Shares at par in November 2018.

(ii) Transactions between subsidiary undertakings

Banking transactions between Group 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 2017, a review was completed of pricing arrangements between Allied Irish Banks, p.l.c. and certain Irish subsidiaries. Arising from this review, new pricing agreements were signed and implemented during 2017. The new agreements reflect OECD guidelines on transfer pricing which are the internationally accepted principles in this area, and take account of the functions, risks and assets involved. In accordance with IFRS 10, *'Consolidated Financial Statements',* transactions between subsidiaries have been eliminated on consolidation.

(b) 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 50).

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 50).

54 Related party transactions *(continued)*

(c) IAS 24 Related Party Disclosures

The following disclosures are made in accordance with the provisions of IAS 24 *Related Party Disclosures.* Under IAS 24, Key Management Personnel ("KMP") are defined as comprising Executive and Non-Executive Directors together with Senior Executive Officers, namely, the members of the Executive Committee (see pages 34 to 37). As at 31 December 2018, the Group had 19 KMP (2017: 22 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 208 to 210.

	2018 € m	2017 € m
Short-term compensation[1]	**6.8**	6.7
Post-employment benefits[2]	**0.9**	0.8
Termination benefits	**–**	–
Total	**7.7**	7.5

[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	**2018 € m**	2017 € m
At 1 January	**4.69**	5.23
Loans issued during the year	**0.57**	0.13
Loan repayments during the year/change of KMP/other	**(0.68)**	(0.67)
At 31 December	**4.58**	4.69

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 2018 were € 0.20 million (2017: € 0.28 million).

Deposit and other credit balances held by KMP and their close family members as at 31 December 2018 amounted to € 6.88 million (2017: € 6.89 million).

54 Related party transactions *(continued)*

(d) 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 11 Directors in office during the year, 8 of whom availed of credit facilities (2017: 9). Of the Directors who availed of credit facilities, 4 had balances outstanding at 31 December 2018 (2017: 5 of 9).

Details of transactions with Directors for the year ended 31 December 2018 are as follows:

	Balance at 31 December 2017 € 000	Amounts advanced during 2018 € 000	Amounts repaid during 2018 € 000	Balance at 31 December 2018 € 000
Mark Bourke:				
Loans	466	–	50	416
Overdraft/credit card*	–	–	–	–
Total	466	–	50	416
Interest charged during the year				5
Maximum debit balance during the year**				466
Tom Foley:				
Loans	–	–	–	–
Overdraft/credit card*	–	–	–	–
Total	–	–	–	–
Interest charged during the year				–
Maximum debit balance during the year**				2
Carolan Lennon:				
Loans	–	–	–	–
Overdraft/credit card*	3	2	–	5
Total	3	2	–	5
Interest charged during the year				–
Maximum debit balance during the year**				11
Catherine Woods:				
Loans	50	–	10	40
Overdraft/credit card*	–	–	–	–
Total	50	–	10	40
Interest charged during the year				–
Maximum debit balance during the year**				50

*Amounts advanced and repaid are not shown for overdraft/credit card facilities as these are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).

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

54 Related party transactions *(continued)*

(d) Companies Act 2014 disclosures

(i) Loans to Directors *(continued)*

Richard Pym had a credit card facility which was not used during the year. Helen Normoyle and Jim O'Hara also held overdraft facilities which were not used during the year. Simon Ball had a credit card facility which held an opening and closing balance of under € 500 at the beginning and end of the reporting period. Tom Foley had a nil balance at 31 December 2018 and a maximum debit balance as represented in the preceding table.

Bernard Byrne, Peter Hagan and Brendan McDonagh had no facilities with the Group during 2018.

As required on transition to IFRS 9, an expected credit loss allowance was created for all loans and advances. Accordingly, an ECL of c. € 21,000 was created on 1 January 2018 and is held on the above facilities at 31 December 2018. All facilities are performing to their terms and conditions.

Details of transactions with Directors for the year ended 31 December 2017 are as follows:

	Balance at 31 December 2016 € 000	Amounts advanced during 2017 € 000	Amounts repaid during 2017 € 000	Balance at 31 December 2017 € 000
Mark Bourke:				
Loans	515	–	49	466
Overdraft/credit card*	–	–	–	–
Total	515	–	49	466
Interest charged during the year				5
Maximum debit balance during the year**				515
Simon Ball:				
Loans	–	–	–	–
Overdraft/credit card*	–	–	–	–
Total	–	–	–	–
Interest charged during the year				–
Maximum debit balance during the year**				1
Tom Foley:				
Loans	–	–	–	–
Overdraft/credit card*	2	–	–	–
Total	2	–	–	–
Interest charged during the year				–
Maximum debit balance during the year**				2
Carolan Lennon:				
Loans	–	–	–	–
Overdraft/credit card*	2	2	–	3
Total	2	2	–	3
Interest charged during the year				–
Maximum debit balance during the year**				10

*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.

54 Related party transactions *(continued)*

(d) Companies Act 2014 disclosures

(i) Loans to Directors *(continued)*

	Balance at 31 December 2016 € 000	Amounts advanced during 2017 € 000	Amounts repaid during 2017 € 000	Balance at 31 December 2017 € 000
Dr Michael Somers:				
Loans	–	–	–	–
Overdraft/credit card*	2	–	–	2
Total	2	–	–	2
Interest charged during the year				–
Maximum debit balance during the year**				2
Catherine Woods:				
Loans	59	–	10	50
Overdraft/credit card*	–	–	–	–
Total	59	–	10	50
Interest charged during the year				1
Maximum debit balance during the year**				59

Richard Pym had a credit card facility which was not used during the year. Helen Normoyle and Jim O'Hara also held overdraft facilities which were not used during the year. Simon Ball had a credit card facility which held an opening and closing balance of under € 500 at the beginning and end of the reporting period. However, the maximum debit balance exceeded €1,000 during the year, and has been reported in the preceding table.

Bernard Byrne, Peter Hagan and Brendan McDonagh had no facilities with the Group during 2017.

As at 31 December 2017, guarantees entered into by Catherine Woods in favour of the Group amounted to € 0.024 million. No amounts were paid or liability incurred in fulfilling the guarantee.

No impairment charges or provisions have been recognised during 2017 in respect of any of the above loans or facilities and all interest that has fallen due on all of these loans or facilities has been paid.

(ii) Connected persons

The aggregate of loans to connected persons of Directors in office at 31 December 2018, as defined in Section 220 of the Companies Act 2014, are as follows (aggregate of 17 persons; 2017: 26 persons):

	Balance at 31 December 2018 € 000	Balance at 31 December 2017 € 000
Loans	**2,013**	2,050
Overdraft/credit card*	**51**	79
Total	**2,064**	2,129
Interest charged during the year	**41**	
Maximum debit balance during the year**	**2,216**	

As required on transition to IFRS 9, an expected credit loss allowance was created for all loans and advances. Accordingly, an ECL of c. € 22,000 was created on 1 January 2018 and is held on the above facilities at 31 December 2018.

*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 2018 represents less than 0.02% of the net assets of the Group (2017: 0.02%).

54 Related party transactions *(continued)*

(e) Summary of relationship with the Irish Government

The Irish Government, as a result of both its investment in AIB's 2009 Preference shares and AIB's participation in Government guarantee schemes, became a related party of AIB in 2009. Following the various share issues to NPRFC during 2010 and 2011, AIB is under the control of the Irish Government. However, following the Initial Public Offering ("IPO") in June 2017, the Government's shareholding reduced from 99.9% to 71.12% of the issued ordinary share capital (see below).

AIB enters into normal banking transactions with the Irish Government and many of its controlled bodies on 'an arm's length' basis. In addition, other transactions include the payment of taxes, pay related social insurance, local authority rates, and the payment of regulatory fees, as appropriate.

Following the crisis in the Irish banking sector and the stabilisation measures adopted since 2008, the involvement of the Irish Government in AIB and in other Irish banks has been and continues to be considerable. This involvement is outlined below.

Rights and powers of the Irish Government and the Central Bank of Ireland

The Irish Minister for Finance ('the Minister') and the Central Bank of Ireland ("the Central Bank") have significant rights and powers over the operations of AIB (and other financial institutions) arising from the various stabilisation measures. These rights and powers relate to, inter alia:

- The acquisition of shares in other institutions;
- Maintenance of solvency ratios and compliance with any liquidity and capital ratios that the Central Bank, following consultation with the Minister, may direct;
- The appointment of non-executive directors and board changes;
- The appointment of persons to attend meetings of various committees;
- Restructuring of executive management responsibilities, strengthening of management capacity and improvement of governance;
- Declaration and payment of dividends;
- Restrictions on various types of remuneration;
- Buy-backs or redemptions by the Group of its shares;
- The manner in which the Group extends credit to certain customer groups; and
- Conditions regulating the commercial conduct of AIB, having regard to capital ratios, market share and the Group's balance sheet growth.

In addition, various other initiatives such as strategies/codes of conduct for dealing with mortgage and other consumer/business loan arrears are set out in the Risk management section of this report.

The relationship of the Irish Government with AIB is outlined under the following headings:

- Capital investments;
- Guarantee schemes;
- NAMA;
- Funding support;
- Relationship Framework; and
- AIB Restructuring Plan

There were no significant changes to the various aspects of the relationship in the year to 31 December 2018.

- ***Capital investments***

  In the years since 2008, the Irish Government has implemented a number of recapitalisation measures to support the Irish banking system including AIB Group. Certain of this capital invested in AIB Group has since been repaid, restructured or reorganised. The relevant capital transactions and/or capital investments outstanding at 31 December 2018 and 2017 are as follows:

  Equity holdings

  The Irish Government holds 1,930,436,543 ordinary shares in AIB Group plc (71.12% of total).

  At 31 December 2016, the Irish Government, through the Ireland Strategic Investment Fund ("ISIF"), held 2,710,821,149 ordinary shares in AIB with a nominal value of € 0.625 per share (99.9% of the total issued ordinary share capital). Following the Initial Public Offering ("IPO") to certain institutional and retail investors in June 2017, the Irish Government sold 780,384,606 of these ordinary shares (28.75% of the issued ordinary share capital).

54 Related party transactions *(continued)*

(e) Summary of relationship with the Irish Government

– ***Capital investments***

Equity holdings

Shares in AIB Group plc are now traded on the Irish and London Stock Exchanges which followed the Scheme of Arrangement becoming effective (note 46).

Under the 2011 Placing Agreement between AIB, the Minister, the NPRFC and the NTMA, AIB agreed to effect and/or facilitate, at its own expense, the placing or offer to the public or the admission to trading of the ordinary shares owned by the Minister. In this regard, AIB paid € 12 million in the financial year to 31 December 2017 on behalf of the Minister in respect of commissions payable to underwriters and intermediaries and € 4 million for transaction advisory fees and expenses incurred by the Minister and the underwriters in connection with the IPO.

Capital contributions

On 28 July 2011, capital contributions totalling € 6.054 billion were made by the Irish State to AIB for nil consideration.

Issue of warrants to the Minister for Finance

As part of the 2015 Capital Reorganisation, AIB entered into a Warrant Agreement with the Minister and granted the Minister the right to receive warrants to subscribe for additional ordinary shares.

On 26 April 2017, the Minister exercised his rights under the Warrant Agreement by issuing a Warrant Notice to AIB requiring it to issue warrants to the Minister to subscribe for such number of ordinary shares representing 9.99% in aggregate of the issued share capital of the company at admission of the ordinary shares to the Official Lists and to trading in accordance with the Listing Rules on the main markets for listed securities of the Irish Stock Exchange and the London Stock Exchange.

Following the admission to listing on the Irish Stock Exchange/Euronext Dublin and the London Stock Exchange, AIB issued warrants to the Minister on 4 July 2017 to subscribe for 271,166,685 ordinary shares of AIB representing 9.99% of the issued share capital. The exercise price for the warrants is 200% of the Offer Price of € 4.40 per ordinary share, the Offer Price being the price in euro per ordinary share which was payable under the IPO. This price may be adjusted in accordance with the terms of the Warrant Instrument and the warrants will be capable of exercise by the holder of the warrants during the period commencing on 27 June 2018 and ending on 27 June 2027.

In accordance with the terms of the Warrant Agreement, no cash consideration was payable by the Minister to AIB in respect of the issue of the warrants.

Under the corporate restructure outlined in note 46, this warrant instrument was replaced by a new warrant instrument (the “AIB Group plc Warrant Instrument”) pursuant to which the Minister for Finance was issued warrants to subscribe for AIB Group plc shares on the same terms and conditions as the Allied Irish Banks, p.l.c. warrants. The new warrant agreement with AIB Group plc became effective on 8 December 2017, i.e. upon the Scheme of Arrangement becoming effective (note 46). Allied Irish Banks, p.l.c. warrants were cancelled on this date.

– ***Guarantee schemes***

The European Communities (Deposit Guarantee Schemes) Regulations 1995 have been in operation since 1995. These regulations guarantee certain retail deposits up to a maximum of € 100,000. In addition, since September 2008, the Irish Government has guaranteed relevant deposits and debt securities of AIB.

In January 2010, AIB and certain of its subsidiaries, became participating institutions for the purposes of the ELG Scheme. This scheme expired on 28 March 2013 for all new liabilities. There were no liabilities guaranteed under the ELG Scheme at 31 December 2018 (31 December 2017: € 143 million). Participating institutions are required to indemnify the Minister for any costs and expenses of the Minister and for any payments made by the Minister under the ELG Scheme which relate to the participating institution’s guarantee under the ELG Scheme.

54 Related party transactions *(continued)*

(e) Summary of relationship with the Irish Government

– ***NAMA***

AIB was designated a participating institution under the NAMA Act in February 2010. Under this Act, AIB transferred financial assets to NAMA for which it received consideration from NAMA in the form of NAMA senior bonds and NAMA subordinated bonds which are detailed in notes 11 and 28. The NAMA senior bonds were fully repaid during 2017. In addition, the Group disposed of € 34 million in nominal value of the NAMA subordinated bonds during 2017.

Following on the transfer of financial assets to NAMA, a contingent liability/contingent asset arises in relation to:

– final settlement amounts with NAMA on assets transferred;
– a series of indemnities which AIB has provided to NAMA on transferred assets;
– a possible requirement for AIB to share NAMA losses on dissolution of NAMA.

Details of the contingent liability/asset are set out in note 48.

Investment in National Asset Management Agency Investment d.a.c. ("NAMAIL")

In March 2010, a then subsidiary of Allied Irish Banks, p.l.c. made an equity investment in 17 million "B" shares of NAMAIL, a special purpose entity established by NAMA. The total investment amounted to € 17 million, of which € 12 million was invested on behalf of the AIB Group pension scheme (fair value at 31 December 2018: € 12 million; 31 December 2017: € 12 million), with the remainder invested on behalf of clients.

– ***Funding support***

The Group availed of Targeted Long Term Refinancing Operation II ("TLTRO II") funding from the ECB, through the Central Bank. At 31 December 2018, all outstanding amounts had been fully repaid (31 December 2017: € 1.9 billion for TLTRO which are included in 'Deposits by central banks and banks' in the table below).

– ***Relationship Framework***

In order to comply with contractual commitments imposed on AIB in connection with its recapitalisation by the Irish State and with the requirements of EU state aid applicable in respect of that recapitalisation, a Relationship Framework was entered into between the Minister and AIB in March 2012. This provides the framework under which the relationship between the Minister and AIB is governed. The Relationship Framework was amended and restated on 12 June 2017. Furthermore, the AIB Group plc Relationship Framework was put in place on 8 December 2017 in substitution for the Relationship Framework dated 12 June 2017. Under the relationship frameworks, the authority and responsibility for strategy and commercial policies (including business plans and budgets) and conducting AIB's day-to-day operations rest with the Board and AIB's management team.

– ***AIB Restructuring Plan***

On 7 May 2014, the European Commission approved, under state aid rules, AIB's Restructuring Plan which covered the period from 2014 to 2017.

As part of this plan, AIB committed to a range of measures relating to customers in difficulty: cost caps and reductions; acquisitions and exposures; coupon payments; promoting competition; and the repayment of aid to the State. All of the commitments were aligned to AIB's operational plans and were supportive of AIB's return to viability.

54 Related party transactions *(continued)*

(e) Summary of relationship with the Irish Government

Balances held with the Irish Government and related entities

The following table outlines the balances held at 31 December 2018 and 2017 with Irish Government entities[(1)] together with the highest balances held at any point during the year.

		2018		2017	
		Balance € m	Highest[(2)] balance held € m	Balance € m	Highest[(2)] balance held € m
Assets					
Cash and balances at central banks	a	1,303	5,360	1,162	3,452
Trading portfolio financial assets		–	68	19	63
Derivative financial instruments		2	2	–	10
Loans and advances to customers		6	7	7	9
Investment securities/financial investments available for sale	b	6,750	7,506	7,487	8,936
Total assets		8,061		8,675	

		2018		2017	
		Balance € m	Highest[(2)] balance held € m	Balance € m	Highest[(2)] balance held € m
Liabilities					
Deposits by central banks and banks	c	–	1,900	1,900	2,346
Customer accounts	d	454	1,057	499	1,172
Trading portfolio financial liabilities		–	66	19	48
Derivative financial instruments		–	11	–	14
Total liabilities		454		2,418	

[(1)]Includes all departments of the Irish Government located in the State and embassies, consulates and other institutions of the Irish Government located outside the State. The Post Office Savings Bank ("POSB") and the National Treasury Management Agency ("NTMA") are included.

[(2)]The highest balance during the period, together with the outstanding balance at the year end, is considered the most meaningful way of representing the amount of transactions that have occurred between AIB and the Irish Government.

a Cash and balances at the central banks represent the minimum reserve requirements which AIB is required to hold with the Central Bank. Balances on this account can fluctuate significantly due to the reserve requirement being determined on the basis of the institution's average daily reserve holdings over a one month maintenance period. The Group is required to maintain a monthly average Primary Liquidity balance which at 31 December 2018 was € 596 million (2017: € 549 million).

b Investment securities at FVOCI at 31 December 2018 comprise € 6,282 million in Irish Government securities held in the normal course of business and NAMA subordinated bonds of € 468 million. At 31 December 2017, these related to financial investments available for sale and comprised € 7,021 million in Irish Government securities held in the normal course of business and NAMA subordinated bonds of € 466 million.

c This relates to funding received from the ECB through the Central Bank which is detailed under 'Funding Support' above, all of which was fully repaid during 2018.

d Includes € 295 million (2017: € 360 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.

Local government[(1)]

During 2018 and 2017, AIB entered into banking transactions in the normal course of business with local government bodies. These transactions include the granting of loans and the acceptance of deposits, and clearing transactions.

[(1)]This category includes local authorities, borough corporations, county borough councils, county councils, boards of town commissioners, urban district councils, non-commercial public sector entities, public voluntary hospitals and schools.

54 Related party transactions *(continued)*

(e) Summary of relationship with the Irish Government

Commercial semi-state bodies[1]

During 2018 and 2017, AIB entered into banking transactions in the normal course of business with semi-state bodies. These transactions principally include the granting of loans and the acceptance of deposits as well as derivative and clearing transactions.

[1]Semi-state bodies is the name given to organisations within the public sector operating with some autonomy. They include commercial organisations or companies in which the State is the sole or main shareholder.

Financial institutions under Irish Government control/significant influence

Certain financial institutions are related parties to AIB by virtue of the Government either controlling or having a significant influence over these institutions. The following institution is controlled by the Irish Government:

– Permanent tsb plc

The Government controlled entity, Irish Bank Resolution Corporation Limited (In Special Liquidation) which went into special liquidation during 2013, remains a related party for the purpose of this disclosure.

In addition, the Irish Government is deemed to have significant influence over Bank of Ireland.

Transactions with these institutions are normal banking transactions entered into in the ordinary course of cash management business under normal business terms. The transactions constitute the short-term placing and acceptance of deposits, derivative transactions, investment debt securities and repurchase agreements.

The following balances were outstanding in total to these financial institutions at 31 December 2018 and 2017:

	2018 € m	2017 € m
Assets		
Derivative financial instruments	**6**	1
Loans and advances to banks[1]	**2**	2
Investment securities/financial investments available for sale	**339**	423
Liabilities		
Deposits by central banks and banks[2]	**–**	1
Derivative financial instruments	**–**	1

[1]The highest balance in loans and advances to banks amounted to € 2 million in respect of funds placed during the year (2017: € 17 million).

[2]The highest balance in deposits by central banks and banks to these financial institutions amounted to € 30 million in respect of funds received during the year (2017: € 302 million).

In connection with the acquisition by AIB Group of certain assets and liabilities of the former Anglo Irish Bank Corporation Limited (now Irish Bank Resolution Corporation Limited (in Special Liquidation)) "IBRC", IBRC had indemnified AIB Group for certain liabilities pursuant to a Transfer Support Agreement dated 23 February 2011. AIB Group had made a number of claims on IBRC pursuant to the indemnity prior to IBRC's Special Liquidation on 7 February 2013.

AIB Group has since served notice of claim and set-off on the Joint Special Liquidators of IBRC in relation to the amounts claimed pursuant to the indemnity and certain other amounts that were owing to AIB by IBRC as at the date of the Special Liquidation (c. € 81.3 million in aggregate). AIB Group is currently engaging with the Joint Special Liquidators in relation to the claim. Given AIB's aggregate liability to IBRC at the date of Special Liquidation exceeded these claims, no financial loss is expected to occur.

Irish bank levy

The bank levy, introduced on certain Irish financial institutions in 2014, is calculated based on each financial institution's Deposit Interest Retention Tax ("DIRT") payment in a base year. This base year changes every two years with 2015 being the base year for 2017 and 2018. The annual levy paid by the Group for 2018 and reflected in administrative expenses (note 13) in the income statement amounted to € 49 million (2017: € 49 million).

(f) 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 Republic of 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.

55 Commitments

Capital expenditure	2018 € m	2017 € m
Estimated outstanding commitments for capital expenditure not provided for in the financial statements	5	5
Capital expenditure authorised but not yet contracted for	80	50

Operating lease rentals

The total of future minimum lease payments under non-cancellable operating leases is set out in the following table:

	2018 € m	2017 € m
One year	65	69
One to two years	58	72
Two to three years	47	71
Three to four years	41	68
Four to five years	38	62
Over five years	156	331
Total	**405**	673

The Group holds a number of significant operating lease arrangements in respect of branches and its headquarter locations.

In the past 18 months, the Group has reassessed its property strategy. In this regard, the Group plans to fully vacate its current headquarters campus at Bankcentre, Ballsbridge by the end of 2020 for which final agreements on assigning these leases have been signed. Accordingly, the lease commitments above are significantly reduced. Onerous lease provisions have been made to cover the unavoidable costs of leaving Bankcentre (note 40).

The Group's new corporate headquarters will be at Molesworth Street, Dublin 2 with occupancy expected in the first half of 2019.

The minimum lease terms remaining on the most significant leases vary from 1 year to 14 years. The average lease length outstanding until a break clause in the lease arrangements is approximately 9 years with the final contractual remaining terms ranging from 1 year to 19 years.

There are no contingent rents payable and all lease payments are at market rates.

The total of future minimum sublease payments expected to be received under non-cancellable subleases at the reporting date were € 5 million (2017: € 6 million).

Operating lease payments recognised as an expense for the year were € 67 million (2017: € 68 million). There was no sublease income in either 2018 or 2017.

Included in the € 405 million (2017: € 673 million) in the table above are minimum lease payments amounting to Nil (2017: € 114 million) for which an onerous lease provision has been created.

In addition to the above minimum lease commitments, the Group was in advanced discussions at 31 December 2019 to lease premises at Heuston South Quarter, with plans to begin occupancy in 2019.

Notes to the consolidated financial statements

56 Employees

The following table shows the geographical analysis of average employees for 2018 and 2017:

Average number of staff (Full time equivalents)	2018	2017
Republic of Ireland	8,681	8,840
United Kingdom	1,066	1,244
United States of America	54	53
Total	9,801	10,137

The following table shows the segmental analysis of average employees for 2018 and 2017:

	2018	2017
RCB	5,268	5,403
WIB	332	278
AIB UK	820	941
Group(1)	3,381	3,515
Total	9,801	10,137

(1)Group includes wholesale treasury activities, central control and support functions. The support functions include business and customer services, marketing, risk, compliance, audit, finance, legal, human resources and corporate affairs.

The average number of employees for 2018 and 2017 set out above excludes employees on career breaks and other unpaid long term leaves.

Actual full time equivalent numbers at 31 December 2018 were 9,831 (2017: 9,720).

57 Regulatory compliance

During the years ended 31 December 2018 and 2017, the Group and its regulated subsidiaries complied with their externally imposed capital ratios.

58 Financial and other information

	2018 %	2017 %
Operating ratios		
Operating expenses/operating income	63.4	61.1
Other income/operating income	26.9	27.5

Rates of exchange	2018	2017
€ /$*		
Closing	1.1450	1.1993
Average	1.1808	1.1299
€ /£*		
Closing	0.8945	0.8872
Average	0.8847	0.8767

*Throughout this report, US dollar is denoted by $ and Pound sterling is denoted by £.

	Assets		Liabilities and equity	
Currency information	2018 € m	2017 € m	2018 € m	2017 € m
Euro	70,756	71,801	70,888	71,543
Other	20,780	18,261	20,648	18,519
	91,536	90,062	91,536	90,062

59 Dividends

On 4 May 2018, following approval by the shareholders at the Annual General Meeting held on 25 April 2018, AIB Group plc paid a final dividend of € 0.12 per ordinary share amounting in total to € 326 million. The financial statements for the year ended 31 December 2018 reflect this in shareholders' equity as an appropriation of distributable reserves.

On 9 May 2017, Allied Irish Banks, p.l.c. as parent company of the Group at that time, paid a final dividend to its shareholders of € 0.0921 per ordinary share amounting in total to € 250 million.

The Board is recommending that a final dividend of € 0.17 per ordinary share, amounting in total to € 461 million, be paid on 3 May 2019. The financial statements for year ended 31 December 2018 do not reflect this dividend which will be accounted for in shareholders' equity as an appropriation of distributable reserves in 2019.

60 Non-adjusting events after the reporting period

No significant non-adjusting events have taken place since 31 December 2018.

61 Approval of financial statements

The financial statements were approved by the Board of Directors on 28 February 2019.

AIB Group plc company statement of financial position

as at 31 December 2018

	Notes	**2018 € m**	2017 € m
Assets			
Loans and advances to banks – subsidiary	d	**1,653**	–
Investment in subsidiary undertaking	e	**12,940**	12,940
Current taxation		**1**	–
Prepayments and accrued income		**19**	–
Total assets		**14,613**	12,940
Liabilities			
Debt securities in issue	f	**1,655**	–
Accruals and deferred income		**25**	–
Total liabilities		**1,680**	–
Equity			
Share capital	g	**1,696**	1,697
Merger reserve	h	**6,235**	6,235
Revenue reserves	i	**5,002**	5,008
Total equity		**12,933**	12,940
Total liabilities and equity		**14,613**	12,940

Richard Pym
Chairman

Bernard Byrne
Chief Executive Officer

Mark Bourke
Chief Financial Officer

Sarah McLaughlin
Group Company Secretary

28 February 2019

AIB Group plc company statement of cash flows

for the financial year ended 31 December 2018

	31 December 2018 € m	8 December 2016 to 31 December 2017 € m
Cash flows from operating activities		
Profit before taxation for the year	**319**	–
Adjustments for:		
– Non-cash and other items		
Change in prepayments and accrued income	**(19)**	–
Change in accruals and deferred income	**25**	–
Dividend income	**(326)**	–
Net credit impairment loss	**1**	–
	(319)	–
– Change in operating assets		
Loans and advances to banks	**(1,651)**	–
– Change in operating liabilities		
Change in debt securities in issue	**1,651**	–
Net cash inflow/(outflow) from operating activities	**–**	–
Cash flows from investing activities		
Dividends received from subsidiary	**326**	–
Net cash inflow from investing activities	**326**	–
Cash flows from financing activities		
Dividends paid on ordinary shares	**(326)**	–
Net cash outflow from financing activities	**(326)**	–
Change in cash and cash equivalents	**–**	–
Closing cash and cash equivalents	**–**	–

The impact of foreign exchange translation for relevant lines in the statement of financial position is removed in order to show the underlying cash impact.

AIB Group plc company statement of changes in equity

for the financial year ended 31 December 2018

				2018
	Attributable to equity holders of the parent			
	Share capital € m	Merger reserve € m	Revenue reserves € m	Total € m
At 1 January 2018	**1,697**	**6,235**	**5,008**	**12,940**
Total comprehensive income for the year	**–**	**–**	**–**	**–**
Profit	**–**	**–**	**320**	**320**
Other comprehensive income	**–**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**320**	**320**
Transactions with owners, recorded directly in equity				
Dividends paid on ordinary shares	**–**	**–**	**(326)**	**(326)**
Redemption of Subscriber Shares[1]	**–**	**–**	**–**	**–**
Other movements (note 42 to the consolidated financial statements)	**(1)**	**–**	**–**	**(1)**
Total contributions by and distribution to owners	**(1)**	**–**	**(326)**	**(327)**
At 31 December 2018	**1,696**	**6,235**	**5,002**	**12,933**

[1]Redemption of 40,000 Subscriber Shares of € 0.625 each at par.

				8 December 2016 to 31 December 2017
	Attributable to equity holders of the parent			
	Share capital € m	Merger reserve € m	Revenue reserves € m	Total € m
At 8 December 2016	–	–	–	–
Total comprehensive income for the period				
Profit/(loss)	–	–	–	–
Other comprehensive income	–	–	–	–
Total comprehensive income for the period	–	–	–	–
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Ordinary shares issued to satisfy requirements for a public limited company[1]	–	–	–	–
Impact of corporate restructuring				
Investment in Allied Irish Banks, p.l.c.[2] *(note e)*	6,705	6,235	–	12,940
Reduction in company capital	(5,008)	–	5,008	–
Total contributions by and distribution to owners	1,697	6,235	5,008	12,940
At 31 December 2017	1,697	6,235	5,008	12,940

[1]Issue of 39,998 ordinary shares of € 0.625 each.

[2]Issue of shares in return for the investment in Allied Irish Banks, p.l.c. on 8 December 2017. The investment of € 12,940 million represents the net book value of Allied Irish Banks, p.l.c. as at 8 December 2017.

Notes to AIB Group plc company financial statements

Background

AIB Group plc is a company domiciled in Ireland. AIB Group plc's registered office address is Bankcentre, Ballsbridge, Dublin 4, Ireland. AIB Group plc was incorporated as RPML 1966 Holdings plc on 8 December 2016. On 5 September 2017, RPML 1966 Holdings plc changed its name to AIB Group plc. AIB Group plc is registered under the Companies Act 2014 as a public limited company under the company number 594283 and is the holding company of the Group. Further details on AIB Group plc's 'Corporate restructuring' are set out in note 46 to the consolidated financial statements.

a Accounting policies

Where applicable, the accounting policies adopted by AIB Group plc ('the parent company' or 'the Company') are the same as those of the Group as set out in note 1 to the consolidated financial statements on pages 234 to 261.

The parent company financial statements and related notes set out on pages 364 to 370 have been prepared in accordance with International Financial Reporting Standards (collectively "IFRSs") as issued by the IASB and IFRSs as adopted by the EU and applicable for the financial year ended 31 December 2018. They also comply with those parts of the Companies Act 2014 and with the European Union (Credit Institutions: Financial Statements) Regulations 2015 applicable to companies reporting under IFRS.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management judgement involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates.

A description of the critical accounting judgements and estimates is set out in note 2 to the consolidated financial statements on pages 262 to 266.

Parent Company Income statement

In accordance with Section 304(2) of the Companies Act 2014, the parent company is availing of the exemption to omit the income statement, statement of comprehensive income and related notes from its financial statements; from presenting them to the Annual General Meeting: and from filing them with the Registrar of Companies. The parent company's profit after taxation for the financial year ended 31 December 2018 is € 320 million (2017: Nil).

b Administrative expenses	2018 € m	2017 € m
Amounts payable to subsidiary under Master Service Agreement	7	–
	7	–

c Auditors' fees

The disclosure of Auditors' fees is in accordance with Section 322 of the Companies Act 2014. This mandates disclosure of fees paid/payable to the Group Auditor only (Deloitte Ireland LLP) for services relating to the audit of the Group financial statements. No audit fees were paid/payable to the Group Auditor (Deloitte Ireland LLP) for services relating to the audit of the financial statements of AIB Group plc during the year to 31 December 2018.

d Loans and advances to banks	2018 € m	2017 € m
At amortised cost		
Funds placed with subsidiary, Allied Irish Banks, p.l.c.	1,654	–
ECL allowance	(1)	–
	1,653	–

e Investment in subsidiary undertaking	2018 € m	2017 € m
At 1 January	12,940	–
Additions	–	12,940
At 31 December	12,940	12,940

On 8 December 2017, AIB Group plc acquired the entire ordinary share capital of Allied Irish Banks, p.l.c. other than a single share already owned by AIB Group plc. Under a Scheme of Arrangement, approved by the shareholders of Allied Irish Banks, p.l.c. at an Extraordinary General Meeting held on 3 November and sanctioned by the High Court on 8 December 2017, 2,714,381,237 Allied Irish Banks, p.l.c. ordinary shares of nominal value € 0.625 per share were cancelled and AIB Group plc issued 2,714,381,237 ordinary shares of nominal value € 2.47 per share to the shareholders of Allied Irish Banks, p.l.c. for every Allied Irish Banks, p.l.c. share cancelled. On the same date, Allied Irish Banks, p.l.c. issued 2,714,381,237 ordinary shares of nominal value € 0.625 per share to AIB Group plc.

The ordinary shares in Allied Irish Banks, p.l.c. that were acquired by AIB Group plc are reflected in AIB Group plc company's statement of financial position at the book value of those shares at the date of acquisition (€ 12,940 million). This book value was based on Allied Irish Banks, p.l.c. company's statement of financial position at the date of acquisition on 8 December 2017, i.e. the net asset value, having satisfied the conditions of IAS 27, paragraph 13.

Allied Irish Banks, p.l.c. is a 100% subsidiary of AIB Group plc. Its issued share capital is denominated in ordinary shares.

Further details on the ‘Corporate restructuring’ are set out in note 46 to the consolidated financial statements.

Allied Irish Banks, p.l.c. is a financial services company incorporated and registered in Ireland with a registered office at Bankcentre, Ballsbridge, Dublin 4. It is the parent company of a number of subsidiaries, both credit institutions and others, all of which are 100% owned. It operates predominantly in Ireland, providing a comprehensive range of services to retail customers, as well as business and corporate customers. Allied Irish Banks, p.l.c. and its subsidiaries offer a full suite of products for retail customers, including mortgages, personal loans, credit cards, current accounts, insurance, pensions, financial planning, investments, savings and deposits. Its products for business and corporate customers include finance and loans, business current accounts, deposits, foreign exchange and interest rate risk management products, trade finance products, invoice discounting, leasing, credit cards, merchant services, payments and corporate finance.

Allied Irish Banks, p.l.c. together with its principal subsidiaries in the Republic of Ireland, AIB Mortgage Bank, EBS d.a.c. and EBS Mortgage Finance, are regulated by the Central Bank of Ireland/Single Supervisory Mechanism. Its principal subsidiary outside the Republic of Ireland, AIB Group (UK) p.l.c., is regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

f Debt securities in issue	2018 € m	2017 € m
Euro Medium Term Note Programme	1,000	–
Global Medium Term Note Programme	655	–
	1,655	–

Analysis of movements in debt securities in issue

	2018 € m	2017 € m
At 1 January	–	–
Issued during the year	1,651	–
Exchange translation adjustments	4	–
At 31 December	1,655	–

Euro Medium Term Note Programme

In March 2018, AIB Group plc issued € 500 million Senior Unsecured 1.50% Notes maturing on 29 March 2023. The notes bear interest on the outstanding nominal amount, payable annually in arrears on 29 March each year.

In July 2018, AIB Group plc issued € 500 million Senior Unsecured 2.25% Notes maturing on 3 July 2025. The notes bear interest on the outstanding nominal amount, payable annually in arrears on 3 July each year.

Global Medium Term Note Programme

In October 2018, AIB Group plc issued US $ 750 million unsecured 4.75% notes maturing on 12 October 2023. The notes bear interest on the outstanding nominal amount, payable semi-annually in arrears on 12 April and 12 October each year.

g Share capital

The share capital of AIB Group plc is detailed in note 42 to the consolidated financial statements, all of which relates to AIB Group plc.

h Merger reserve	2018 € m	2017 € m
At 31 December	**6,235**	6,235

Under the Scheme of Arrangement ("the Scheme") approved by the High Court on 6 December 2017 which became effective on 8 December 2017, a new company, AIB Group plc ('the Company'), was introduced as the holding company of AIB Group. The share capital of Allied Irish Banks, p.l.c., other than a single share owned by AIB Group plc, was cancelled and an equal number of new shares were issued by the Company to the shareholders of Allied Irish Banks, p.l.c. The difference between the carrying value of the net assets of Allied Irish Banks, p.l.c. entity on acquisition by the Company and the nominal value of the shares issued on implementation of the Scheme amounting to € 6,235 million was accounted for as a merger reserve (note 46 to the consolidated financial statements).

i Reduction in company capital

Subsequent to the issue by AIB Group plc of 2,714,381,237 ordinary shares of nominal value € 2.47 per share, AIB Group plc petitioned the High Court for a capital reduction in order to create distributable reserves in the accounts of AIB Group plc. This involved the reduction of the nominal value of the ordinary shares from € 2.47 per share to € 0.625 per share. The capital reduction which created € 5,008 million in distributable reserves became effective on 14 December 2017 (note 46 to the consolidated financial statements).

j Related party transactions

Related parties of AIB Group plc include subsidiary undertakings, associated undertakings, joint undertakings, post-employment benefit schemes, Key Management Personnel and connected parties. The Irish Government is also considered a related party by virtue of its effective control of AIB Group plc.

The following were the principal transactions during 2018 between AIB Group plc (the parent company) 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 b);
- AIB Group plc placed funds with Allied Irish Banks, p.l.c amounting to € 1,653 million (note d);
- AIB Group plc received a dividend amounting to € 326 million from Allied Irish Banks, p.l.c.

AIB Group plc has not issued any guarantees in favour of Allied Irish Banks, p.l.c. or its subsidiaries.

Other related party transactions including transactions with Directors are detailed in note 54 to the consolidated financial statements. Directors' remuneration is set out on pages 208 to 210 in the 'Governance and oversight' section of this report.

k Credit risk information

The following table sets out the maximum exposure to credit risk for financial assets all of which are carried at amortised cost[1] at 31 December 2018:

	2018	2017
Maximum exposure to credit risk	**Total € m**	Total € m
Loans and advances to banks	**1,653**	–
Included elsewhere:		
Accrued interest	**19**	–
Total	**1,672**	–

[1]All amortised cost items are loans and advances which are in a 'held to collect' business model.

Notes to AIB Group plc company financial statements

I Funding and liquidity risk

Financial assets and financial liabilities by contractual residual maturity

The following table analyses financial assets and financial liabilities by contractual residual maturity at 31 December 2018:

						2018
	On demand € m	<3 months but not on demand € m	3 months to 1 year € m	1–5 years € m	Over 5 years € m	Total € m
Financial assets						
Loans and advances to banks[1]	–	–	–	1,154	500	1,654
Other financial assets	–	19	–	–	–	19
	–	19	–	1,154	500	1,673
Financial liabilities						
Debt securities in issue	–	–	–	1,155	500	1,655
Other financial liabilities	25	–	–	–	–	25
	25	–	–	1,155	500	1,680

[1]Shown gross of expected credit losses.

General information

Shareholder information

Internet-based Shareholder Services

Ordinary Shareholders with access to the internet may:

- register for electronic communications on the following link, www.computershare.com/register/ie;
- view any outstanding payments, change your address and view your shareholding by signing into Investor Centre on www.computershare.com/ie/InvestorCentre. You will need your unique user ID and password which you created during registration, or register at www.computershare.com/ie/investor/register to become an Investor Centre member.
  To register you will be required to enter the name of the company in which you hold shares, your Shareholder Reference Number ("SRN"), your family or company name and security code (provided on screen).
- download standard forms required to initiate changes in details held by the Registrar on the Investor Centre accessed above or via the Investor Relations section of AIB's website at www.aib.ie/investorrelations, clicking on the Shareholder Information and Personal Shareholder Information option, and following the on-screen instructions.

Shareholders may also use AIB's website to access the Company's Annual Financial Report.

Stock Exchange Listings

AIB Group plc is an Irish registered company. Its ordinary shares are traded on the primary listing segment of the official list of the Irish Stock Exchange/Euronext Dublin and the premium listing segment of the Official List of the London Stock Exchange.

Registrar

The Company's Registrar is:

Computershare Investor Services (Ireland) Ltd.,
Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.
Telephone: +353-1-247 5411. Facsimile: +353-1-216 3151.
Website: **www.computershare.com** or **www.investorcentre.com/ie/contactus**

Major shareholdings

The issued share capital of the AIB Group plc is 2,714,381,237 ordinary shares of € 0.625 each.

The Minister for Finance of Ireland holds 1,930,436,543 ordinary shares representing 71.12% of the total voting rights attached to issued share capital.

Financial calendar

Annual General Meeting: 24 April 2019, at the Ballsbridge Hotel, Ballsbridge, Dublin 4.

Interim results

The unaudited Half-Yearly Financial Report 2019 will be announced on 26 July 2019 and will be available on the Company's website – **www.aib.ie.**

Shareholder's enquires regarding Ordinary Shares should be addressed to:

Computershare Investor Services (Ireland) Ltd.,
Heron House,
Corrig Road,
Sandyford Industrial Estate,
Dublin 18, Ireland.
Telephone: +353 1 247 5411
Facsimile: +353 1 216 3151
Website: **www.computershare.com**

General information

Forward Looking Statements

This document contains certain forward looking statements with respect to the financial condition, results of operations and business of AIB Group and certain of the plans and objectives of the Group. These forward looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward looking statements sometimes use words such as ‘aim’, ‘anticipate’, ‘target’, ‘expect’, ‘estimate’, ‘intend’, ‘plan’, ‘goal’, ‘believe’, ‘may’, ‘could’, ‘will’, ‘seek’, ‘continue’, ‘should’, ‘assume’, or other words of similar meaning. Examples of forward looking statements include, among others, statements regarding the Group’s future financial position, capital structure, Government shareholding in the Group, income growth, loan losses, business strategy, projected costs, capital ratios, estimates of capital expenditures, and plans and objectives for future operations. Because such statements are inherently subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward looking information. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward looking statements. These are set out in the Principal risks and uncertainties on pages 62 to 68 in the 2018 Annual Financial Report. In addition to matters relating to the Group’s business, future performance will be impacted by Irish, UK and wider European and global economic and financial market considerations. Any forward looking statements made by or on behalf of the Group speak only as of the date they are made. The Group cautions that the list of important factors on pages 62 to 68 of the 2018 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 ("CET 1")	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.

Glossary of terms

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.
Credit default swaps	An agreement between two parties whereby one party pays the other a fixed coupon over a specified term. The other party makes no payment unless a specified credit event, such as a default, occurs, at which time a payment is made and the swap terminates. Credit default swaps are typically used by the purchaser to provide credit protection in the event of default by a counterparty.
Credit derivatives	Financial instruments where credit risk connected with loans, bonds or other risk weighted assets or market risk positions is transferred to counterparties providing credit protection. The credit risk might be inherent in a financial asset such as a loan or might be a generic credit risk such as the bankruptcy risk of an entity.
Credit impaired	Under IFRS 9, these are Stage 3 financial assets where there is objective evidence of impairment and, therefore, considered to be in default. A lifetime ECL is recognised for such assets.
Credit risk	The risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.
Credit risk mitigation	Techniques used by lenders to reduce the credit risk associated with an exposure by the application of credit risk mitigants. Examples include: collateral; guarantee; and credit protection.
Credit spread	Credit spread can be defined as the difference in yield between a given security and a comparable benchmark government security, or the difference in value of two securities with comparable maturity and yield but different credit qualities. It gives an indication of the issuer's or borrower's credit quality.
Credit support annex	Credit support annex ("CSA") provides credit protection by setting out the rules governing the mutual posting of collateral. CSAs are used in documenting collateral arrangements between two parties that trade over-the-counter derivative securities. The trade is documented under a standard contract called a master agreement, developed by the International Swaps and Derivatives Association ("ISDA"). The two parties must sign the ISDA master agreement and execute a credit support annex before they trade derivatives with each other.
Credit valuation adjustment	Credit valuation adjustment ("CVA") is an adjustment to the valuation of OTC derivative contracts to reflect the creditworthiness of derivative counterparties.
Criticised	Accounts of lower quality and considered as less than satisfactory are referred to as criticised and include the following;
Criticised watch:	The credit is exhibiting weakness and is deteriorating in terms of credit quality and may need additional attention.
Criticised recovery:	Includes forborne cases that are classified as performing having transitioned from default, but still requires additional management attention to monitor for re-default and continuing improvement in terms of credit quality.
Customer accounts	A liability of the Group where the counterparty to the financial contract is typically a personal customer, a corporation (other than a financial institution) or the government. This caption includes various types of deposits and credit current accounts, all of which are unsecured.
Debt restructuring	This is the process whereby customers in arrears, facing cash flow or financial distress, renegotiate the terms of their loan agreements in order to improve the likelihood of repayment. Restructuring may involve altering the terms of a loan agreement including a partial write down of the balance. In certain circumstances, the loan balance may be swapped for an equity stake in the counterparty.
Debt securities	Assets on the Group's balance sheet representing certificates of indebtedness of credit institutions, public bodies and other undertakings.
Debt securities in issue	Liabilities of the Group which are represented by transferable certificates of indebtedness of the Group to the bearer of the certificates.

Default	When a customer breaches a term and/or condition of a loan agreement, a loan is deemed to be in default for case management purposes. Depending on the materiality of the default, if left unmanaged it can lead to loan impairment. Default is also used in a CRD IV context when a loan is greater than 90 days past due and/or the borrower is unlikely to pay his credit obligations. This may require additional capital to be set aside.
Derecognition	The removal of a previously recognised financial asset or financial liability from the Group's statement of financial position.
ECB refinancing rate	The main refinancing rate or minimum bid rate is the interest rate which banks have to pay when they borrow from the ECB under its main refinancing operations.
ECLs	Expected credit loss ("ECLs") – The weighted average of credit losses with the respective risks of a default occurring as the weights.
Eurozone	The eurozone consists of the following nineteen European Union countries that have adopted the euro as their common currency: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia and Spain.
Exposure at default	The expected or actual amount of exposure to the borrower at the time of default.
Exposure value	For on balance sheet exposures, it is the amount outstanding less provisions and collateral held taking into account relevant netting agreements. For off-balance sheet exposures, including commitments and guarantees, it is the amount outstanding less provisions and collateral held taking into account relevant netting agreements and credit conversion factors.
First/second lien	Where a property or other security is taken as collateral for a loan, first lien holders are paid before all other claims on the property. Second lien holders are subordinate to the rights of first lien holders to a property security.
Forbearance	Forbearance is the term used when repayment terms of a loan contract have been renegotiated in order to make these terms more manageable for borrowers. Standard forbearance techniques have the common characteristic of rescheduling principal or interest repayments, rather than reducing them. Standard forbearance techniques employed by the Group include: - interest only; a reduction in the payment amount; a temporary deferral of payment (a moratorium); extending the term of the mortgage; and capitalising arrears amounts and related interest.
Funded/ unfunded exposures	Funded: Loans, advances and debt securities where funds have been given to a debtor with an obligation to repay at some future date and on specific terms. Unfunded: Unfunded exposures are those where funds have not yet been advanced to a debtor, but where a commitment exists to do so at a future date or event.
Funding value adjustment	Funding value adjustment ("FVA") is an adjustment to the valuation of OTC derivative contracts due to a bank's funding rate exceeding the risk-free rate.
Guarantee	An undertaking by the Group/other party to pay a creditor should a debtor fail to do so.
Home loan	A loan secured by a mortgage on the primary residence or second home of a borrower.
Internal Capital Adequacy Assessment Process	Internal Capital Adequacy Assessment Process ("ICAAP"): The Group's own assessment, through an examination of its risk profile from regulatory and economic capital perspectives, of the levels of capital that it needs to hold.
Internal liquidity adequacy assessment process	The Internal Liquidity Adequacy Assessment Processes ("ILAAP") is a key element of the risk management framework for credit institutions. ILAAP is defined in the EBA's SREP Guidelines as "the processes for the identification, measurement, management and monitoring of liquidity implemented by the institution pursuant to Article 86 of Directive 2013/36/EU". It thus contains all the qualitative and quantitative information necessary to underpin the risk appetite, including the description of the systems, processes and methodology to measure and manage liquidity and funding risks.
Internal Ratings Based Approach	The Internal Ratings Based Approach ("IRBA") allows banks, subject to regulatory approval, to use their own estimates of certain risk components to derive regulatory capital requirements for credit risk across different asset classes. The relevant risk components are: Probability of Default ("PD"); Loss Given Default ("LGD"); and Exposure at Default ("EAD").
ISDA Master Agreements	Standardised contracts, developed by the International Swaps and Derivatives Association ("ISDA"), used as an umbrella under which bilateral derivatives contracts are entered into.

Glossary of terms

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. CRD IV requires that this ratio exceeds 100% on 1 January 2018.
Liquidity risk	The risk that Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.
Loan to deposit ratio	This is the ratio of loans and advances expressed as a percentage of customer accounts, as presented in the statement of financial position.
Loan to value	Loan to value ("LTV") is an arithmetic calculation that expresses the amount of the loan as a percentage of the value of security/collateral. A high LTV indicates that there is less of a cushion to protect the lender against collateral price decreases or increases in the loan carrying amount if repayments are not made and interest is capitalised onto the outstanding loan balance.
Loans past due	When a borrower fails to make a contractually due payment, a loan is deemed to be past due. 'Past due days' is a term used to describe the cumulative number of days that a missed payment is overdue. Past due days commence from the close of business on the day on which a payment is due but not received. In the case of overdrafts, past due days are counted once a borrower: – has breached an advised limit; – has been advised of a limit lower than the then current amount outstanding; or – has drawn credit without authorisation. When a borrower is past due, the entire exposure is reported as past due, rather than the amount of any excess or arrears.
Loss Given Default	Loss Given Default ("LGD") is the expected or actual loss in the event of default, expressed as a percentage of 'exposure at default'.
Medium term notes	Medium term notes ("MTNs") are notes issued by the Group across a range of maturities under the European Medium Term Notes ("EMTN") Programme.
National Asset Management Agency	National Asset Management Agency ("NAMA") was established in 2009 as one of a number of initiatives taken by the Irish Government to address the serious problems which arose in Ireland's banking sector as the result of excessive property lending.
Net interest income	The amount of interest received or receivable on assets net of interest paid or payable on liabilities.
Net interest margin	Net interest margin ("NIM") is a measure of the difference between the interest income generated on average interest earning financial assets (lendings) and the amount of interest paid on average interest bearing financial liabilities (borrowings) relative to the amount of interest-earning assets.
Net Stable Funding Ratio	Net Stable Funding Ratio ("NSFR"): The ratio of available stable funding to required stable funding over a 1 year time horizon.
New transaction lendings	New transaction lending is defined as incremental increase in drawn balances against facilities granted for a specific period of time whereby the borrower can draw down or repay amounts as required to manage cash flow. It includes revolving credit facilities, overdrafts and invoice discounting facilities.
Non-performing exposures	Non-performing exposures are defined by the European Banking Authority to include material exposures which are more than 90 days past due (regardless of whether they are credit impaired) and/or exposures in respect of which the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or the number of days the exposure is past due.
Off-balance sheet items	Off-balance sheet items include undrawn commitments to lend, guarantees, letters of credit, acceptances and other items as listed in Annex I of the CRR.
Offsetting	Offsetting, or 'netting', is the presentation of the net amounts of financial assets and financial liabilities in the statement of financial position as a result of Group's rights of set-off.
Operational risk	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk, but excludes strategic and business risk. In essence, operational risk is a broad canvas of individual risk types which include product and change risk, outsourcing, information security, cyber, business continuity, health and safety risks, people risk and legal risk.

Optionality risk	A type of market risk associated with option features that are embedded within assets and liabilities on the Group's balance sheet. The embedded option features can significantly change the cash flows (and/or redemption) of the contract and can, therefore, effect its duration, yield and pricing. Examples include bonds with early call provisions or prepayment risk on a mortgage portfolio. Where these risks are left unhedged, it can result in losses arising in the Group's portfolio.
Prime loan	A loan in which both the criteria used to grant the loan (loan-to-value, debt-to-income, etc.) and to assess the borrower's history (no past due reimbursements of loans, no bankruptcy, etc.) are sufficiently conservative to rank the loan as high quality and low-risk.
Principal components analysis	Principal components analysis ("PCA") is a tool used to analyse the behaviour of correlated random variables. It is especially useful in explaining the behaviour of yield curves. Principal components are linear combinations of the original random variables, chosen so that they explain the behaviour of the original random variables, and so that they are independent of each other. Principal components can, therefore, be thought of as just unobservable random variables. For yield curve analysis, it is usual to perform PCA on arithmetic or logarithmic changes in interest rates. Often the data is "demeaned"; adjusted by subtracting the mean to produce a series of zero mean random variables. When PCA is applied to yield curves, it is usually the case that the majority (> 95%) of yield curve movements can be explained using just three principal components (i.e. a parallel shift, twist and bow). PCA is a very useful tool in reducing the dimensionality of a yield curve analysis problem and, in particular, in projecting stressed rate scenarios.
Private equity investments	Equity securities in operating companies not quoted on a public exchange, often involving the investment of capital in private companies.
Probability of Default	Probability of Default ("PD") is the likelihood that a borrower will default on an obligation to repay.
Regulatory capital	Regulatory capital is determined in accordance with rules established by the SSM/ECB for the consolidated Group and by local regulators for individual Group companies.
Re-pricing risk	Re-pricing risk is a form of interest rate risk (i.e. a type of market risk) that occurs when asset and liability positions are mismatched in terms of re-pricing (as opposed to final contractual) maturity. Where these interest rate gaps are left unhedged, it can result in losses arising in the Group's portfolio of financial instruments.
Repurchase agreement	Repurchase agreement ("Repo") is a short-term funding agreement that allows a borrower to create a collateralised loan by selling a financial asset to a lender. As part of the agreement, the borrower commits to repurchase the security at a date in the future repaying the proceeds of the loan. For the counterparty to the transaction, it is termed a reverse repurchase agreement or a reverse repo.
Residential mortgage-backed securities	Residential mortgage-backed securities ("RMBS") are debt obligations that represent claims to the cash flows from pools of mortgage loans, most commonly on residential property.
Risk weighted assets	Risk weighted assets ("RWAs") are a measure of assets (including off-balance sheet items converted into asset equivalents e.g. credit lines) which are weighted in accordance with prescribed rules and formulas as defined in the Basel Accord to reflect the risks inherent in those assets.
Securitisation	Securitisation is the process of aggregation and repackaging of non-tradable financial instruments such as loans and advances, or company cash flows into securities that can be issued and traded in the capital markets.
Single Supervisory Mechanism	The Single Supervisory Mechanism ("SSM") is a system of financial supervision comprising the European Central Bank ("ECB") and the national competent authorities of participating EU countries. The main aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe.
Special purpose entity	Special purpose entity ("SPE") is a legal entity which can be a limited company or a limited partnership created to fulfil narrow or specific objectives. A company will transfer assets to the SPE for management or use by the SPE to finance a large project thereby achieving a narrow set of goals without putting the entire firm at risk. This term is used interchangeably with SPV (special purpose vehicle).
Stage allocation:	Under IFRS 9, loans and advances to customers are classified into one of three stages:
Stage 1	Includes newly originated loans and loans that have not had a significant increase in credit risk since initial recognition.
Stage 2	Includes loans that have had a significant increase in credit risk since initial recognition but do not have objective evidence of being credit impaired.
Stage 3	Includes loans that are defaulted or are otherwise considered to be credit impaired.
Stress testing	Stress testing is a technique used to evaluate the potential effects on an institution's financial condition of an exceptional but plausible event and/or movement in a set of financial variables.

Glossary of terms

Structured securities This involves non-standard lending arrangements through the structuring of assets or debt issues in accordance with customer and/or market requirements. The requirements may be concerned with funding, liquidity, risk transfer or other needs that cannot be met by an existing off the shelf product or instrument. To meet this requirement, existing products and techniques must be engineered into a tailor-made product or process.

Syndicated and international lending Syndicated and international lending involves lending to entities by leveraging off their equity structures having considered the cash generating capacity of the business and its capacity to repay any associated debt. Leveraging structures are typically used in management and private equity buy-outs, mergers and acquisitions. Syndicated and international lending is extended typically to non-investment grade borrowers and carries commensurate rates of return.

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

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

Tracker mortgage A mortgage with a variable interest rate which tracks the European Central Bank ("ECB") rate, at an agreed margin above the ECB rate and will increase or decrease within five days of an ECB rate movement.

Trade date and settlement date accounting

1. Trade date accounting records the transaction on the date on which an agreement has been entered (the trade date), instead of on the date the transaction has been finalised (the settlement date).
2. Under the settlement date accounting approach, the asset is recognised on the date on which it is received by the Group, on disposal, the asset is not derecognised until the asset is delivered to the buyer.

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

Wholesale funding Wholesale funding refers to funds raised from wholesale market sources. Examples of wholesale funding include senior unsecured bonds, covered bonds, securitisations, repurchase transactions, interbank deposits and deposits raised from non-bank financial institutions.

Yield curve risk A type of market risk that refers to the possibility that an interest rate yield curve changes its shape unexpectedly (e.g. flattening, steepening, non-parallel shift), resulting in losses arising in the Group's portfolio of interest rate instruments.

Principal addresses

Ireland & Britain

Group Headquarters
Bankcentre, PO Box 452,
Ballsbridge, Dublin 4.
Telephone: + 353 1 660 0311
Website: group.aib.ie

Allied Irish Banks, p.l.c.
Bankcentre, Ballsbridge,
Dublin 4.
Telephone: + 353 1 660 0311

AIB Retail & Commercial Banking Ireland
Bankcentre, Ballsbridge,
Dublin 4.
Telephone: + 353 1 660 0311

AIB Wholesale & Institutional Banking,
Bankcentre, Ballsbridge,
Dublin 4.
Telephone: + 353 1 660 0311

First Trust Bank
First Trust Centre, 92 Ann Street,
Belfast BT1 3HH.
Telephone: + 44 28 9032 5599
From RoI: 048 9032 5599

Allied Irish Bank (GB)
St Helen's, 1 Undershaft,
London EC3A 8AB.
Telephone: + 44 20 7647 3300
Facsimile: + 44 20 7629 2376

AIB Finance and Leasing
Bankcentre, Ballsbridge,
Dublin 4.
Telephone: + 353 1 660 0311

AIB Customer Treasury Services
Bankcentre, Ballsbridge,
Dublin 4.
Telephone: + 353 1 660 0311

AIB Commercial Finance Limited
Bankcentre, Ballsbridge,
Dublin 4.
Telephone: + 353 1 667 0233

AIB Corporate Banking (GB)
St Helen's, 1 Undershaft,
London EC3A 8AB.
Telephone: + 44 207 090 7130

EBS d.a.c.
The EBS Building,
2 Burlington Road,
Dublin 4.
Telephone: + 353 1 665 9000
Facsimile: + 353 1 874 7416

AIB Financial Solutions Group
Bankcentre, PO Box 452,
Ballsbridge, Dublin 4.
Telephone: + 353 1 660 0311

AIB Arrears Support Unit
Bankcentre, PO Box 452,
Ballsbridge, Dublin 4.
Telephone: + 353 1 660 0311

AIB Third Party Servicing
Bankcentre, PO Box 452,
Ballsbridge, Dublin 4.
Telephone: + 353 1 660 0311

USA

AIB Corporate Banking North America
1345 Avenue of the Americas,
10th Floor,
New York, New York 10105.
Telephone: + 1 212 339 8000

AIB Customer Treasury Services
1345 Avenue of the Americas,
10th Floor,
New York, New York 10105.
Telephone: + 1 212 339 8000

All numbers are listed with international codes. To dial a location from within the same jurisdiction, drop the country code after the + sign and place a 0 before the area code. This does not apply to calls to First Trust Bank from the Republic of Ireland.

Index

This page has been intentionally left blank

This page has been intentionally left blank

This page has been intentionally left blank

Annual Review:
Designed and produced by **emperor**
Visit us at **emperor.works**

Print management:
Custodian Consultancy
Unit 517 Grants Rise, Greenogue Business Park,
Rathcoole, Dublin 24, D24 R9YX

The paper used in this production has been sourced from a sustainably managed forest.

AIB Group plc
Bankcentre, PO Box 452, Dublin 4, Ireland
T: + 353 (1) 660 0311 / group.aib.ie