AIB Group (UK) p.l.c.

Annual Financial Report

for the year ended 31 December 2022

Company number: NI018800

Contents

Within this document any reference made to 'AIB UK', 'The Bank' or 'The Company' will relate to AIB Group (UK) p.l.c., whilst any reference to 'AIB UK Group' will relate to AIB Group (UK) p.l.c. and its subsidiaries. Reference made to 'AIB plc' or 'the Parent' will relate to Allied Irish Banks, p.l.c. whilst reference to 'the Parent Group' will relate to Allied Irish Banks, p.l.c. and its subsidiary undertakings, which includes AIB Group (UK) p.l.c.

How we’ve done

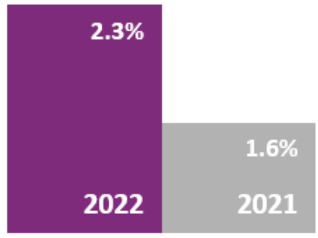
2022 performance

Financial performance

Net interest margin[1]

2.3%

Strong NIM; due to higher interest rate environment
Increased customer loan yields reflecting higher interest rate environment, partially offset by an increase in interest expense.

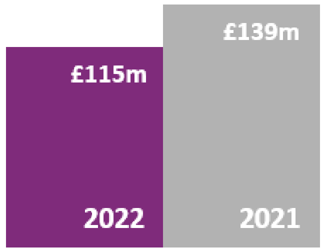


Total adjusted costs[2]

£115m

Continued focus on cost management
Costs reduced as a result of decreased average employee numbers, combined with a reduced property footprint across the UK.

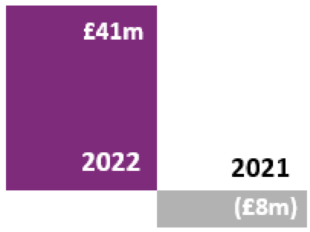
Statutory operating expenses £122m
(including restructuring costs) (2021: £160m)



Net credit impairment charge

£41m

Cautious approach to provisioning
Impairment charge of £41m primarily due to deteriorating macroeconomic outlook in the UK.

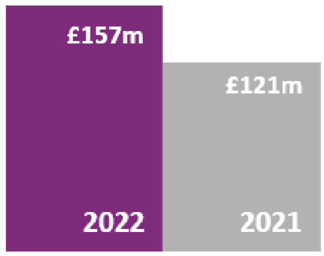


Adjusted profit before tax[2]

£157m

Adjusted profit before tax of £157m, up 30% due to increased income in a higher rate environment and strong cost management.

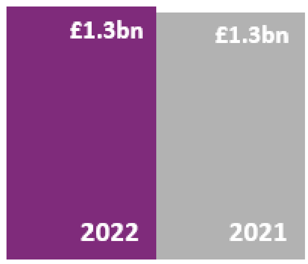
Statutory profit before tax £138m
(2021: £89m profit)



New lending[1]

£1.3b

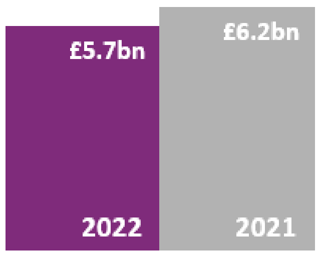
Continued focus on core sectors
Strong performance in the Energy & Infrastructure and Property sectors, which remained resilient and experienced growth in the year.



Net loans

£5.7b

8% decrease in net loans
Lower net loans due to sale of GB SME loans and a sale of non-performing loans in the year.

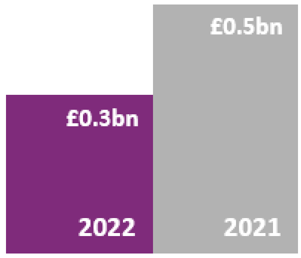


Non-performing loans[1]

£0.3b

5.6% of gross loans

Decrease in non-performing loans due to higher redemptions throughout 2022 and a sale of non-performing loans.

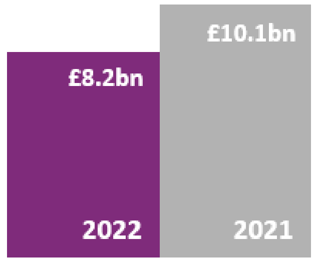


Customer accounts

£8.2b

Customer balances decreased 19%

Primarily driven by strategic exit of GB SME customers, coupled with an increase in spending activity due to rising inflation and cost of living.

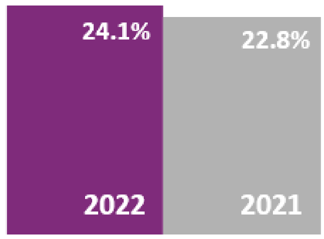


CET1 ratio[3]

24.1%

Strong capital base

Strong and robust capital ensuring we are well positioned for sustainable growth and ability to withstand financial stress.



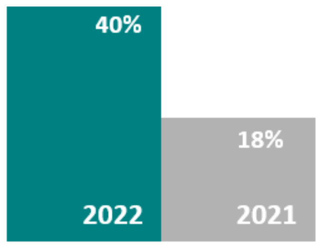
Non-financial & sustainability performance

Green new lending[4]

40%

Lending to support the transition to a lower carbon economy

AIB UK achieved £527m of green new lending in 2022, accounting for 40% of total new lending.

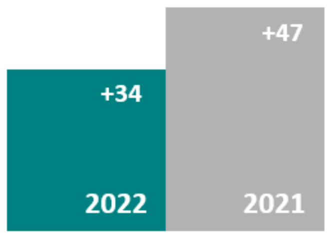


Net promoter score

+34

Decrease in average NPS (AIB NI Retail)

Deterioration in customer satisfaction metrics. Changes to operating models have been implemented to improve the customer experience.

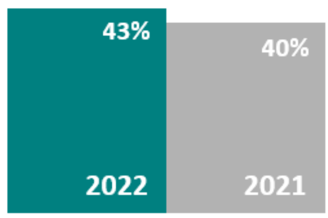


Diversity

43%

Women as a % of management

We remain committed to accelerating the inclusion and diversity agenda.



[1] *These measures are considered Alternative Performance Measures ('APMs') as they are not statutory measures but, when considered together with statutory results, provide additional information to users of these financial statements. Further information on APMs is included on page 21.*

[2] *Further information on the calculation of these adjusted measures, which we consider to be APMs, is included on page 21. Page 11 shows a reconciliation to the statutory results.*

[3] *The Common Equity Tier 1 ('CET1') ratio for 2022 includes add-backs for COVID-19 reliefs. When these reliefs are excluded, the CET1 ratio at 31 December 2022 reduces from 24.1% to 23.5%.*

[4] *See our Sustainable Lending Framework for definitions and requirements for 'green lending' (https://www.aib.ie/sustainability). In 2021, green lending accounted for £235m of total new lending. In the 2021 Annual Financial Report, green lending was misreported as £275m.*

At a glance

How we back our customers

AIB UK operates in the two distinct markets of Great Britain and Northern Ireland. In Great Britain, we support corporate customers with a comprehensive range of lending and deposit products, offering specific sector expertise. In Northern Ireland, we offer a full service retail banking service to personal and business customers with a focus on mortgages and business lending.

279k

CUSTOMERS[1]

279k retail, business and corporate customers across the United Kingdom.

11

LOCATIONS

Offices in London, Belfast, Manchester and Northampton. 7 branches in Northern Ireland, with business centres co-located in some branches.

137k

DIGITAL CUSTOMERS

137k customers actively engaging across our digital channels.

AIB (NI)

Our vision is to be a full service bank in Northern Ireland with the digital capability and operating model to meet the everyday banking and deposit needs of our customers.

ALLIED IRISH BANK (GB)

Following our withdrawal from the GB SME market, our vision is to be a leading niche corporate bank, with recognised expertise in our chosen sectors, supporting mid to large corporates.

Our people in 2022

Our people[2]

659 Employees (FTE) Direct & Indirect

55% Female

45% Male

Management[2]

196 Employees (FTE) Direct & Indirect

43% Female

57% Male

[1] *Active customers defined as those meeting specific criteria under one or more of three categories: Activity, Balance and Policy.*

[2] *As at 31 December 2022.*

Chair's statement

"We can be proud of our achievements to date in strengthening and streamlining our business. We have made a significant transformation in the Bank's position for its future."

William Fall

Introduction

In 2022, AIB UK entered the second year of its three year strategy focused on re-shaping the Bank to build a long-term sustainable business for our customers, our people, our shareholders and our stakeholders. I am pleased to have been appointed Chair of AIB UK in March 2022, having been welcomed to the Board the prior year, and privileged to take a lead in steering the Bank through its next phase.

Various headwinds combined throughout the year to produce a challenging economic environment. Rising inflation and a sharp rise in interest rates contributed to negatively impact household disposable incomes, as the Bank of England tightened monetary policy. The continued market uncertainty means it is even more vital to our customers that the Bank positions itself strongly to be able to support them. We believe the path we have chosen to take in our current strategic cycle is delivering on our values and putting our customers at the heart of our organisation.

Financial performance & business strategy

We went into 2022 with a clear strategy for how to position the Bank in the two key markets identified in our aim to become a sustainable, capital-generative and efficient business, capable of delivering outstanding outcomes for all our stakeholders. We adjusted our business model and are building risk and control appropriately.

The second stage of the loan portfolio sale to Allica Bank was finalised, which was a significant milestone in our withdrawal from the GB SME market. A key consideration in this transaction was to make this transition as seamless as possible for our customers, and we believe this goal was achieved.

Having implemented changes to our operating model, we have already begun to see the benefits of our new way of working through more efficient processes and a reduction in duplication. Looking forward, we will continue to refine the operating model, which will make a significant difference for our colleagues and give them more time to focus on their core roles, ultimately improving our customer journey.

We also embarked on streamlining our model in Northern Ireland. As well as rationalising our branch network we made a difficult decision to sell our non-branch ATM network, following a decline in the use of cash in recent years as more customers opt to use card, contactless and electronic payment methods.

With the easing of COVID-19 the Board was delighted to be able to re-engage with our customers through a number of dinners and meetings in both GB and NI. This provided a welcomed opportunity for direct engagement with our customers.

The Bank continues to grow its business in our chosen markets, having achieved £1.3b of new lending to customers. Sustainability is a crucial priority on the Bank's agenda, so it is pleasing to note that 40% of this new lending was in support of renewable and sustainable industries.

AIB UK Group recorded a statutory profit before taxation of £138m for the year and an adjusted profit before taxation[1] of £157m. The Bank's results reflect increasing net interest income due to higher income on assets following increases in the Bank of England base rate throughout 2022 and reducing costs through strong cost management. These were partly offset by an increase in the net credit impairment charge, due to the deterioration in the macroeconomic outlook.

[1] *AIB UK Group's performance and key performance indicators above are adjusted to exclude those items that the Bank believes obscure the performance trends of the business. These measures are considered APMs and a description of AIB UK Group's APMs and their calculation is included on page 21 of this report. A reconciliation to the statutory view of performance is included in the Financial review on page 11.*

Customers & colleagues

Our customers remain at the forefront of our minds, not least those that are classified as vulnerable, particularly at a time when many people are concerned about the sharp rise in interest rates and the impact on real household disposable incomes. Through implementation of our strategic aims, we are ensuring AIB UK is positioned to support all our customers through an uncertain economic period.

Fraud prevention remains a key area of focus and we remain cognisant of the risk presented by fraud to our customers. In 2022 we launched the UK version of the AIB Authenticator App for business customers, offering an additional layer of security to customers when making online payments.

As COVID-19 restrictions were lifted, colleagues returned to our offices and while there is huge value in being able to connect and collaborate in person with our colleagues from a business and a social perspective, we also implemented a move to a hybrid model of working to provide greater flexibility as individuals sought to maintain a positive work life balance. We have also continued to promote a range of resources to encourage wellbeing, inclusion and engagement amongst our colleagues.

Feedback from our colleagues has always been invaluable to us and, as we emerge from the acute difficulties of the pandemic period and the ongoing fallout, it is particularly important for us to create an environment where everyone can be at their best every day. We relaunched our AIB Engage Survey in 2022 to enable us to identify which areas we can take action on that we feel will make the biggest collective impact. The survey showed positive results regarding colleague satisfaction with the Bank as a place to work, and we are committed to making continuous improvements to the environment our colleagues work in.

Board of Directors

Peter Spratt stepped down as Chair of AIB UK in March 2022 after six years, a period which included an unprecedented global pandemic and the launch of the Bank's current strategic journey. I would like to thank him in guiding the Bank to its current position and in helping my transition into the role.

It was with regret that Robert Mulhall announced his intention to depart AIB UK. We thank Robert for his strong input and wish him well with his future.

We were delighted to announce Hilary Gormley's appointment as Managing Director following Robert's resignation. She has extensive banking experience, with over 30 years' experience in the Parent Group and a successful track record in delivering results. As the Bank pivots to growing the business, Hilary is the perfect fit to drive this forward, as well as keep the connection to the Parent and our strategy.

Janet McConkey was formally appointed Chief Financial Officer in 2022, following regulatory approval, and was appointed to the Board in January 2022. Janet has over 20 years' experience working in the Parent Group, holding key roles in strategic and financial planning, management reporting and regulatory reporting. Her experience adds great insight and strength to the Board of AIB UK.

Outlook

As we move into the final year of our strategy we can be proud of our achievements to date in strengthening and streamlining our business. We have made a significant transformation in the Bank's position for its future.

Looking forward, we can build on the momentum of a successful year in 2022. We will look to further enhance our digital offering, improve the customer experience and engagement, and leverage Parent Group capabilities and infrastructure to raise our market profile and achieve prudent balance sheet growth. We are confident that we are well positioned to deliver real, sustainable value in the years ahead for all our stakeholders.

William McN Fall

William Fall
Chair

6 March 2023

Managing Director's review

"Driven by our customer led purpose, we have continually evolved and adapted to the change in the UK macro-economic conditions, successfully responding to our customers' financial needs."

Hilary Gormley

Introduction

I am delighted to take on the role as Managing Director of AIB UK and would like to thank my predecessor Robert Mulhall for his support during the transition. I have spent the last six months working with our Board and Executive team getting a better understanding of the business, the markets and sectors that we operate in, understanding our customers' needs and reviewing and validating the strategy and the progress made over 2021 and 2022.

2022 has been a year of significant global challenge with economic and geopolitical events leading to market volatility, a slow down in growth and recessionary conditions in the UK. This has driven a cost challenge for both businesses and households across the UK and we are fully committed to supporting our customers to navigate through this.

Despite the constantly evolving external challenges, AIB UK delivered a new operating model designed to support our customers more efficiently, significantly reduce our cost base and improve returns. In addition, we have refined our support for our sector-led corporate business in Great Britain and our Retail Banking offering for our customers in Northern Ireland while also attracting new staff into the Bank.

AIB UK delivered a positive financial performance in 2022 and we are reporting a profit before tax of £138m for the full year primarily driven by the higher Bank of England interest rate environment. We will continue to maintain our focus on the cost agenda in 2023, leveraging opportunities to reduce costs through increased efficiencies.

Strong new lending of £1.3b delivered from a more streamlined and cost efficient operating platform than 2021. There are mixed trends across our targeted sectors with the main growth coming from the Energy and Housing sectors.

Economic factors

The UK economy lost momentum over the course of 2022, impacted by several factors including political challenges, the war in Ukraine and the global energy crisis. After having expanded in the first half of the year, UK Gross Domestic Product ('GDP') contracted in the third quarter, while survey data for the fourth quarter is consistent with continuing weak economic conditions. These conditions continued into the final quarter of 2022, indicating lower economic activity into 2023.

Activity was constrained as the year progressed by the negative impact on real household incomes from elevated inflation, which peaked at 11.1% in October. The Government's Energy Price Cap in GB helped to cushion some of the challenges to household finances from higher energy costs, but the significant increase in interest rates has also had a dampening impact on economic activity.

We were dynamic in the face of these market challenges, enabling us to provide the support required by our customers and the communities we serve.

Strategy 2021-23

We outlined our business strategy at the end of 2020 with an ambition to streamline and strengthen our business. We took the opportunity to review our strategy in light of the challenging environment and I am satisfied with our progress on delivering this and our transformation of our operating model.

We took the difficult decision to exit from the GB SME market and during 2022 we executed a plan to achieve this. This was a significant and complex change for customers and we ensured our customers were supported through the process.

In Northern Ireland we reviewed our channel strategy and improved our service offering through our partnership with the Post Office.

We have a clear ambition to support customer growth into 2023, but we are cognisant of the external headwinds and will do this in a considered way. Supporting our customers in the sectors where we have domain experience is a key enabler of that growth. These sectors include Energy & Infrastructure, Housing, Commercial Real Estate, Healthcare, Manufacturing/Industrial & Diversified Industries, whilst supporting our Hospitality & Leisure sectors to recover post-pandemic.

In 2023 we will provide our personal customers with a more efficient mortgage process, a customer focused deposit offering and continue our plans to improve our digital banking services.

Customer first

I am committed to leading an organisation where our people put the customer at the heart of everything they do.

The recent turbulence in the market has caused challenges for people seeking mortgages. We continued to offer mortgages to new customers seeking to buy their own homes with options available through our broker led channel, and to support existing customers wishing to review their mortgages, move home or borrow additional money.

During 2022 we have adjusted depositor rates to support our customers through the increasing interest rate environment.

For Corporate banking, we focused on delivering to our customers through deep sector expertise. We strive to be flexible and provide customised financial solutions that meet our customer needs. This has been recognised externally through our nomination as finalists in the Health Investor Awards in 2022.

We delivered £1.3b in new lending of which 40% was green finance across these chosen sectors in GB and business and personal lending in NI.

We always look for ways to support our customers and I am pleased that AIB UK will be the first bank in the UK to lead out on a lending initiative for domestic abuse victim- survivors.

Looking forward, there are a number of ‘Customer First’ initiatives being implemented across the business in response to customer feedback, changes within the market, along with evolving regulatory requirements which will enhance on our customers' experience.

Risk & capital

Whilst challenged, the AIB UK portfolio remained resilient, and our assessment of its credit risk profile was reported as stable. Our priority is to manage our asset quality where we have strong domain expertise.

Non-performing loans as a percentage of gross loans to customers was 5.6% at 31 December 2022 compared to 8.0% at 31 December 2021. This decrease primarily reflects the disposal of loan portfolios and redemptions, partially offset by net flow to non-performing. We remain committed to reducing non-performing exposures in 2023 given the impact on cost, capital requirements and balance sheet resilience.

Our overall approach to provisioning remains cautious; there was a net credit impairment of £41m reflecting the challenging economic conditions.

AIB UK continues to have strong liquidity metrics (Liquidity Coverage Ratio 176% and Net Stable Funding Ratio 145%).

The UK has a strong capital base with a CET1 ratio of 24.1% at 31 December 2022, well in excess of our minimum capital requirements.

Simple & efficient

AIB UK is committed to a culture of continuous improvement for the benefit of our stakeholders. We continue to deploy Lean methodology to enhance our service delivery for our customers.

The Parent Group takes an enterprise view of investment planning of which the UK business is a key stakeholder in agreeing, prioritising and implementing strategic change programmes for the benefit of our customers. An example of this is our multi-year programme that takes advantage of technological advancements and will provide our business customers with an improved offering on the provision of credit facilities.

The vast majority of Northern Ireland mortgages are completed via intermediary brokers, and we are working on a new digital mortgage application platform which will transform the existing broker/customer mortgage journey, delivering decisions faster and more efficiently.

Talent & culture

After implementing a restructure at the end of 2021, we started to work within our new operating model in 2022. Whilst initially this experienced some operational challenges, we have since recruited 90 new colleagues, refreshing our talent and enriching diversity of thought throughout our business. At the same time we promoted 77 colleagues during the year.

During 2022, there was once again a shift in how we work, from (up to) 80% of our colleagues working remotely in 2021, to introducing a model with most of our colleagues starting to utilise hybrid working, supporting both their flexibility and work-life balance. In 2023, we will continue to support our colleagues with hybrid working.

Mental health of colleagues is a priority for us, particularly as we deal with the post-pandemic impacts on how we work. We provided all our Senior Leaders with mental health training, and all our people leaders with absence management training, in addition to our ongoing focus in this area.

In 2022, we supported our employees with the cost of living crisis by giving them a once-off award, up to the equivalent of €1,000, through our internal peer-to-peer recognition programme, Appreciate.

Our focus on having a gender balance at management level roles and our commitment to the HM Treasury Women in Finance Charter strives for better balance in pay, participation and promotions across our organisation. We continue to improve this, with females currently representing 43% of management, and our aim is to achieve 50%. We remain committed to inclusiveness and diversity and are working closely with the Parent Group on driving this across different dimensions. In 2022, this supported the achievement at Parent Group level of a Gold accreditation for “Investors in Diversity” by the Irish Centre for Diversity.

We launched a new engagement survey, AIB Engage, with a focus on health and wellbeing. This has helped us understand what works well and identify areas where we can make improvements. We will repeat this survey three times annually so that we continue to make AIB UK a great place to work.

We ended the year with our first live and live-streamed all-colleague event post-lockdown with excellent engagement across our locations. Designed to share and describe our strategy and plans with all of our staff, this will become a regular event in the AIB UK calendar.

Sustainability

Sustainable Communities is a key strategic pillar for the Parent Group and AIB UK. The Environmental, Social and Governance ('ESG') agenda is being embedded into the organisation and how we conduct our activities day in, day out.

Our ambition is to operate as carbon neutral using a 'net zero' approach, and for green/ transition lending to account for 70% of new customer lending by 2030. In 2022, we continued to expand green lending, which accounted for 40% of all new lending in 2022, and we reduced our Scope 1 & 2 location-based emissions by 20% in 2022 when compared to 2021.

Key to our strategy is being a sustainable and responsible business for the communities in which we operate. The Parent Group launched the first AIB Community €1 Million Fund across Ireland and the UK, which enables our customers, employees and the public to support the charities within their communities that mean the most to them. Beneficiaries in 2022 included Great Ormond Street Hospital, Diabetes UK and the Alzheimer's Society.

Regulatory and other evolving issues

Our priority was on credit risk and asset quality and executing our strategy whilst ensuring progress on our systems and controls, recovery and resolution programmes.

2022 saw mobilisation of the programme to assess and deliver the Consumer Duty requirements. Taking a Customer Journey Review approach, we are reviewing our business and ensuring that we are delivering good customer outcomes through our products and services.

We have enhanced our resources and capabilities and allocated these according to the priority areas of the business.

We remain determined to ensure our plans are built from a foundation of strong controls and risk management.

Conclusion

2022 was a year of significant challenging conditions for both our customers and our business. It has demonstrated how dynamic and agile we need to be as a business to be able to respond to the ever-changing external environment.

Driven by our customer led purpose, we have evolved and adapted to the change in the UK macroeconomic conditions, successfully responding to our customers' dynamic financial needs. I am proud of this level of agility and our inherent drive to back our customers which gives me great confidence as we move into 2023.

Hilary Gormley
Managing Director

6 March 2023

Financial review

"Strong financial performance, with robust capital and liquidity, in a challenging economic environment. AIB UK remains focused on delivering sustainable returns in the years ahead."

Janet McConkey

Basis of preparation

This Financial review is prepared using International Financial Reporting Standards ('IFRS') and non-IFRS measures. Non-IFRS measures include management and regulatory performance measures which are considered Alternative Performance Measures ('APMs'). A description of AIB UK Group's APMs and their calculation is set out on page 21.

Adjusted results and other APMs may be considered in addition to, but not as a substitute for, the reported results presented in accordance with IFRS. These management performance measures are presented as they reflect the Board's view of AIB UK Group's performance and business activities, enabling the users of the Annual Financial Report to better understand the financial performance and compare performance from period to period. Management performance presented should be considered in conjunction with IFRS information as set out in the consolidated financial statements from page 67 onwards.

A reconciliation between the IFRS statutory and the adjusted management performance summary income statement is set out below.

Summary income statement	2022 £m	2021 £m
Net interest income	**253**	198
Adjusted other income	**61**	55
Total adjusted operating income	**314**	253
Total adjusted costs	**(115)**	(139)
Regulatory fees	**(1)**	(1)
Adjusted operating profit before expected credit losses	**198**	113
Net credit impairment (charge)/writeback	**(41)**	8
Adjusted profit before tax	**157**	121
Loss on sale of loan portfolio	**(16)**	(9)
Portfolio migration income/fees	**1**	—
Voluntary severance	**(2)**	(11)
Restructuring provision	**—**	(6)
Impairment of property, plant and equipment	**(2)**	(6)
Customer redress	**1**	3
Portfolio migration costs	**(3)**	—
Profit/(loss) on disposal of property	**2**	(3)
Total adjustments	**(19)**	(32)
Statutory profit before tax	**138**	89
Tax	**(23)**	81
Statutory profit after tax	**115**	170

Summary balance sheet	2022 £m	2021 £m
Gross loans to customers	**5,915**	6,399
Expected credit losses	**(197)**	(201)
Net loans	**5,718**	6,198
Other assets	**5,157**	6,490
Total assets	**10,875**	**12,688**
Customer accounts	**8,204**	10,088
Other liabilities	**1,017**	808
Shareholders' equity	**1,654**	1,792
Total liabilities and shareholders' equity	**10,875**	**12,688**

[1] *Further analysis of these adjustments can be found on page 15.*

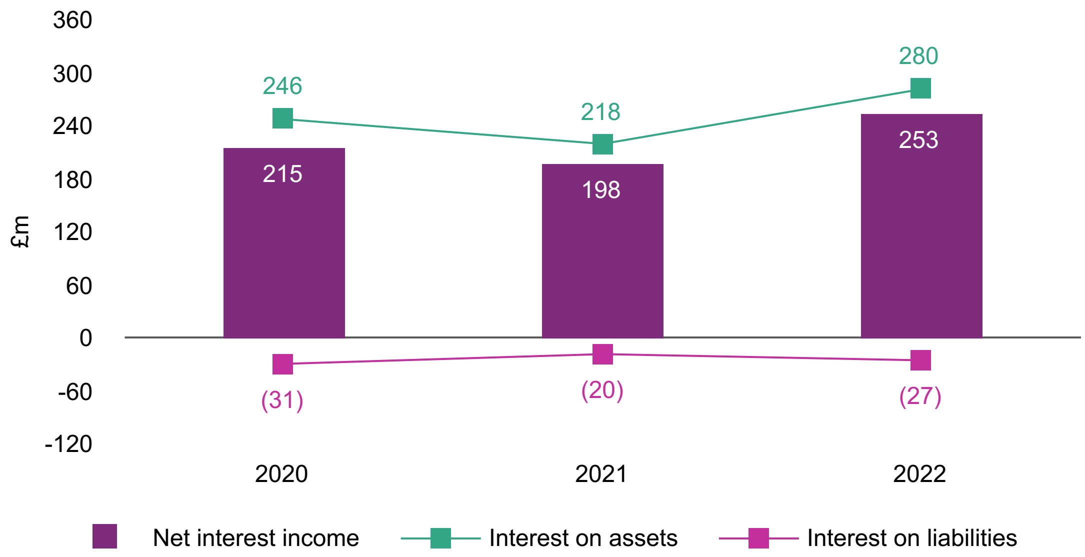
Summary income statement review

Total adjusted operating income and net interest margin ('NIM')

Total adjusted operating income	NIM	Other income
£314m	**2.3%**	**£61m**
£253m	1.6%	£55m

Net interest income

	2022	2021	Change
	£m	£m	%
Net interest income	253	198	28
Average interest earning assets	10,883	12,175	(11)
	%	%	Change
NIM	2.3	1.6	0.7



Net interest income increased by £55m (28%) compared to 2021 due to higher income on assets as a result of the rising interest rate environment in 2022. This was partially offset by a reduction in lending balance sheet. See page 17 for further detail.

Net interest margin

The net interest margin increased by 0.7% from 1.6% in 2021 to 2.3% in 2022. This was due to increasing asset yields, primarily as a result of a rise in the Bank of England base rate from 0.25% to 3.50% through 2022. This was partially offset by higher interest rates paid on customer deposits.

Average balance sheet

	Year ended 31 December 2022			Year ended 31 December 2021		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Assets	£m	£m	%	£m	£m	%
Loans and receivables from customers	5,936	228	3.8	6,683	197	3.0
Balances with central banks & other interest earning assets	4,947	52	1.1	5,492	21	0.4
Average interest earning assets	10,883	280	2.6	**12,175**	**218**	**1.8**
Non interest earning assets	770			700		
Total assets	11,653	280		**12,875**	**218**	
Liabilities and equity						
Customer accounts	6,846	23	0.3	7,992	10	0.1
Other interest bearing liabilities	444	4	0.8	669	10	1.5
Average interest bearing liabilities	7,290	27	0.4	**8,661**	**20**	**0.2**
Non-interest bearing liabilities	2,612			2,510		
Equity	1,751			1,704		
Total liabilities and equity	11,653	27		**12,875**	**20**	
Net interest income	10,883	253	2.3	**12,175**	**198**	**1.6**

Average interest earning assets of £10.9b in 2022 decreased by £1.3b compared to 2021, primarily due to a reduction in both funds placed with banks and customer loans. In 2022, the strategic exit from the GB SME market impacted both assets and liabilities.

Adjusted other income

	2022	**2021**
	£m	**£m**
Retail banking customer fees	14	14
Credit related fees	11	12
Foreign exchange fees	9	7
Service charge	3	3
Credit card commission	2	3
Other fees and commission	8	6
Fee commission expense	(4)	(4)
Interest rate contracts	8	7
Investment securities - equity	10	6
Other operating income	—	1
Other income	61	55

Adjusted other income increased by £6m (11%) to £61m, compared to £55m in 2021. This was largely due to higher income from interest rate contracts and positive gains on the fair value of equity investments. The sale of the GB SME portfolio and non-performing loans in 2021 and 2022 have been excluded and categorised as an APM. See page 21 for more detail.

Statutory other income, which included the loss of £16m related to the sale of the GB SME and non-performing loans, was £48m for 2022, up £5m on 2021.

Total adjusted costs and cost income ratio

Total adjusted costs	Adjusted cost income ratio
£115m	**37%**
£139m	55%

Total adjusted costs	2022 £m	2021 £m	change %
Personnel costs	60	79	(24)
General & administrative costs	44	47	(6)
Depreciation, impairment and amortisation	11	13	(15)
Total adjusted costs	**115**	**139**	**(17)**
Employee numbers at period end ('FTE')	659	715	(8)
Average employee numbers	656	901	(27)

Total adjusted costs

Total adjusted costs have decreased by £24m (17%) to £115m compared to 2021.

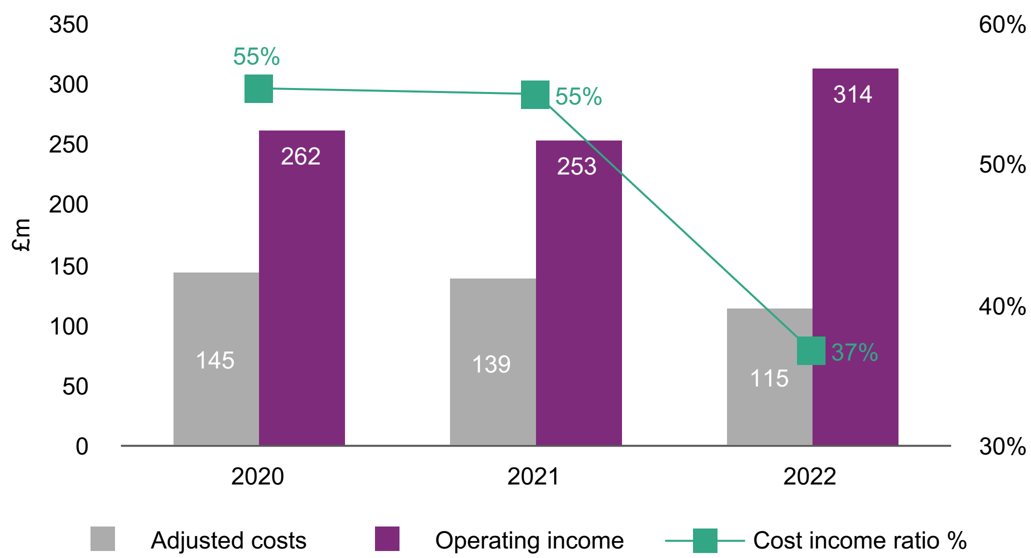
Personnel costs decreased by £19m compared to 2021 as a result of a reduction in Full Time Equivalents ('FTEs') arising from the voluntary severance programme carried out by the organisation in 2021/2022 as part of the transformation programme, decreasing the average employee numbers (see note 10).

General and administrative costs have decreased by £3m compared to 2021 due to the combined impact of the reduced property footprint in the UK, partly countered by an increase in professional fees.

Depreciation, impairment and amortisation costs decreased by £2m due to property exits in 2021 reducing amortisation and depreciation charges.

Statutory total operating expenses of £122m in 2022 decreased from £160m in 2021. This was largely due to lower personnel costs in 2022 and the impact of restructuring costs in 2021; the latter of which were primarily voluntary severance costs and property impairments and provisions, driven by property exits in GB and NI. This includes £30m (2021: £30m) of allocated costs from AIB plc.

Adjusted cost income ratio



Adjusted costs of £115m (down 17%) and income of £314m (up 24%) resulted in a cost income ratio of 37% in 2022, which was a reduction from 55% in 2021. Statutory cost income ratio of 40% in 2022 reduced from 66% in 2021.

Regulatory fees

	2022 £m	2021 £m
Regulatory fees	**(1)**	(1)

These include regulatory fees and levies calculated and collected by the Financial Conduct Authority ('FCA'), which also contribute to other organisations including the: Payment Systems Regulator; Prudential Regulation Authority ('PRA'); Financial Services Compensation Scheme ('FSCS'); Financial Ombudsman Service; Money and Pensions Service; Financial Reporting Council; and Illegal Money Lending Team.

Net credit impairment charge

	2022 £m	2021 £m
Net credit impairment (charge)/writeback	**(41)**	8

There was a net credit impairment charge of £41m in 2022, compared to an £8m writeback in 2021. The increase in expected credit losses since 2021 is primarily due to post model adjustments reflective of the deterioration in the macroeconomic outlook. See note 21(a) & (b) for more detail.

Total adjustments

	2022 £m	2021 £m
Adjustments from other income:		
Loss on sale of loan portfolio	**(16)**	(9)
Portfolio migration income/fees	**1**	—
Profit/(loss) on disposal of property	**2**	(3)
Total	**(13)**	(12)
Adjustments from personnel expenses:		
Voluntary severance	**(2)**	(11)
Portfolio migration costs	**(2)**	—
Adjustments from general and administrative expenses:		
Customer redress	**1**	3
Portfolio migration costs	**(1)**	—
Restructuring provision	**—**	(6)
Adjustments from impairment and depreciation of property, plant and equipment:		
Impairment of property, plant and equipment	**(2)**	(6)
Total	**(6)**	(20)
Total adjustments	**(19)**	(32)

These are items that management believes due to their size or nature impact the comparability of performance for period to period. See Alternative Performance Measures section on page 21 for more detail.

Tax

	2022 £m	2021 £m
Income tax (charge)/credit	**(23)**	81

In 2022 there was a £23m tax charge, compared to a tax credit of £81m in 2021. The £23m comprised a current tax charge of £20m (2021: £7m charge) and deferred tax charge of £3m (2021: £88m credit). The deferred tax credit of £88m in 2021 was mainly due to the impact of higher forecast profitability and a higher deferred tax rate on the deferred tax asset recognised for unutilised losses. See note 13 for further details.

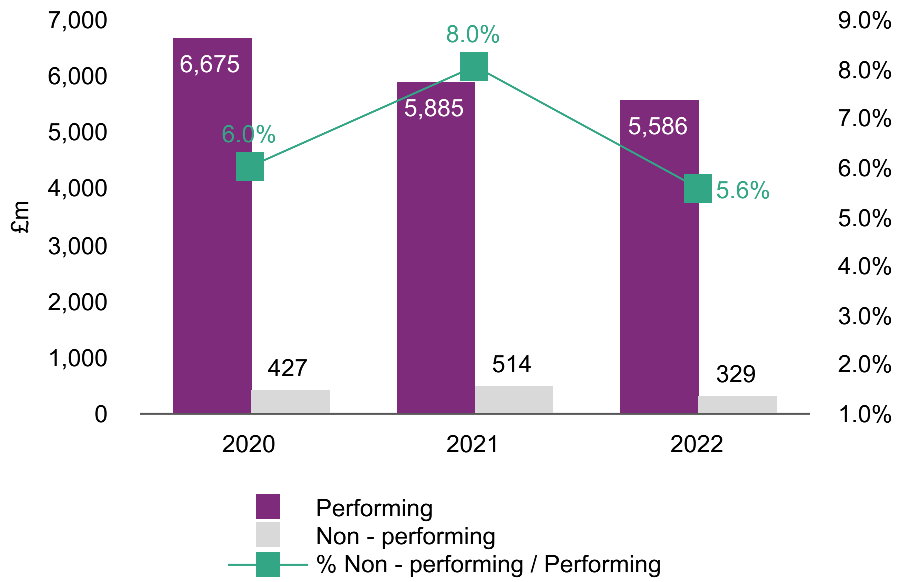
Balance sheet review

Assets

Performing loans	Non-performing loans	New lending	Expected credit losses
£5.6b	**£0.3b**	**£1.3b**	**£197m**
£5.9b	£0.5b	£1.3b	£201m

Assets	31 Dec 2022 £m	31 Dec 2021 £m	change %
Gross loans to customers	5,915	6,399	(8)
Expected credit losses	(197)	(201)	(2)
Net loans to customers	5,718	6,198	(8)
Cash and balances at central banks	3,924	5,306	(26)
Intercompany assets	245	233	5
Other assets	988	951	4
Total assets	**10,875**	**12,688**	**(14)**

Performing and non-performing loans



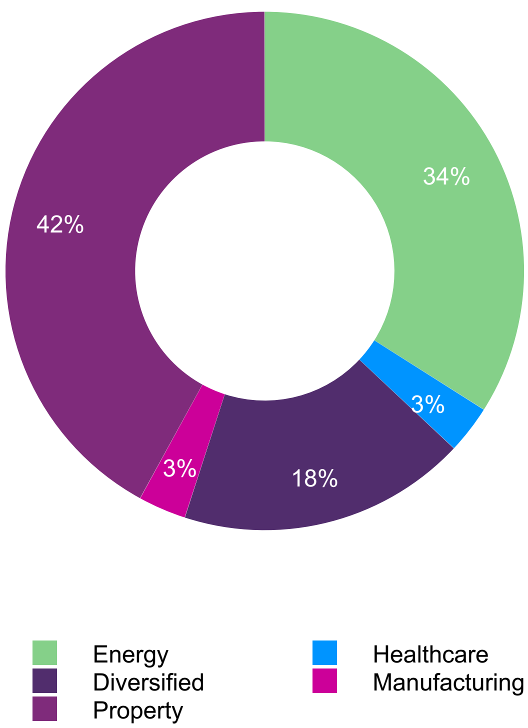
Gross loans to customers

Performing loans decreased by £299m reflecting the sale of GB SME loans. Non-performing loans decreased by £185m driven by redemptions and the sale of non-performing loans (including loans derecognised in December 2022, see note 15), partially offset by a net flow to non-performing. See note 21 for more detail.

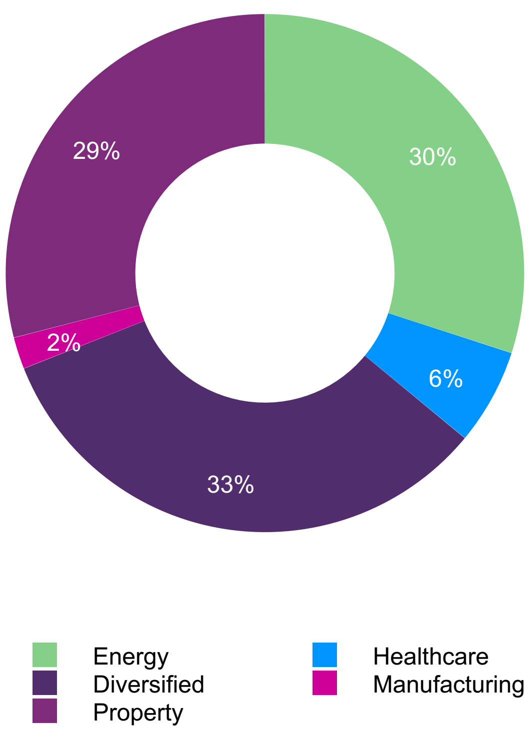
New lending

New lending trend

2022 UK new lending by sector

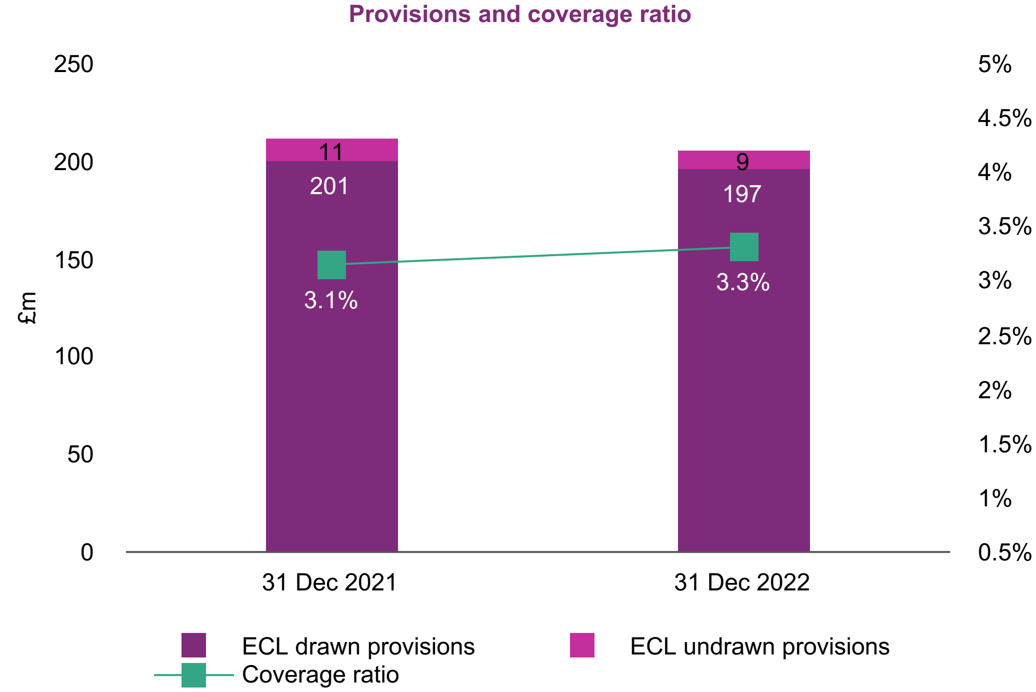


2021 UK new lending by sector



New lending of £1.3b in 2022 was broadly flat compared to 2021. There was strong performance in the Energy & Infrastructure and Property sectors, which remained resilient and experienced year on year growth. However, there were limited opportunities in certain sectors such as Healthcare and Diversified, owing to market uncertainty and the effect of rising interest rates.

Expected credit losses



The balance sheet provision for loss allowances are on an IFRS 9 ECL basis. The ECL on loans at 31 December 2022 is £197m and ECL on undrawn facilities and guarantees is £9m. This is £6m lower than at 31 December 2021 due to the disposal of GB SME performing and non-performing portfolios in addition to repayments and write-offs. This is partially offset by an increase in post-model adjustments applied for year-end, given the deterioration in the macroeconomic outlook to account for economic and financial conditions that may not be fully captured by the IFRS 9 models.

The ECL provisions on drawn loans at 31 December 2022 were £4m lower than at 2021 year-end.

Summary of movements in loans to customers

The table below sets out the movement in loans to customers from 1 January 2022 to 31 December 2022.

Loans to customers	Performing loans £m	Non-performing loans £m	Loans to customers £m
Gross loans at 1 January 2021	**5,885**	**514**	**6,399**
New lending[1]	1,297	4	1,301
Redemptions of existing loans[2]	(1,304)	(226)	(1,530)
Portfolio disposals	(208)	(65)	(273)
Write-offs and restructures	—	(17)	(17)
Net movement to non-performing	(128)	128	—
Foreign exchange movements	15	—	15
Other movements	29	(9)	20
Gross loans at 31 December 2021	**5,586**	**329**	**5,915**
ECL allowance	(106)	(91)	(197)
Net loans at 31 December 2021	**5,480**	**238**	**5,718**

The presentation of movements above differs from the presentation of movements reported in note 21(h).

[1] New lending includes new drawdowns on Revolving Credit Facilities.

[2] Redemptions of existing loans includes repayments on Revolving Credit Facilities, the net movement in loans renegotiated and interest credited on loans.

In note 21(h): the net movement on Revolving Credit Facilities are included in Redemptions; loans renegotiated are reported gross as new loans/top ups and repayments; and, interest credited is shown as a separate item.

Liabilities and equity

Total liabilities	Shareholders' equity
£9.2b	**£1.7b**
£10.9b	£1.8b

	31 Dec 2022	31 Dec 2021	change
	£m	£m	%
Customer accounts – current accounts	5,299	7,062	(25)
Customer accounts – deposits	2,905	3,026	(4)
Total customer accounts	**8,204**	10,088	(19)
Intercompany liabilities	138	184	(25)
Other liabilities	879	624	41
Total liabilities	**9,221**	**10,896**	**(15)**
Shareholders' equity	1,654	1,792	(8)
Total liabilities and equity	**10,875**	**12,688**	**(14)**
Loan to deposit ratio	**69 %**	62 %	13

Total customer balances decreased by £1,884m in 2022, predominantly within current accounts. The decrease in current accounts reflects the strategic exit from the GB SME market in 2022 accompanied by an increase in spending activity due to the rise in inflation and higher cost of living.

The decrease in shareholders' equity of £138m to £1,654m was driven by mark-to-market movements in cash flow derivatives due to material movements in interest rates and a reduction in the pension scheme surplus, which were partially offset by profit after taxation recorded in 2022 of £115m. See note 35 for further detail.

Capital management and liquidity

Capital

The level of capital held by AIB UK Group is influenced by the minimum regulatory requirements of the PRA. The adequacy of AIB UK Group's capital is assessed by comparing available regulatory capital resources with capital requirements expressed as a percentage of risk weighted assets ('RWA'). The minimum capital requirement under the Capital Requirements Regulation (575/2013) is a total capital (to RWA) ratio of 8% and Tier 1 capital (to RWA) ratio of 4.5%, from which the PRA sets individual minimum capital ratios for banks within its jurisdiction. In line with these requirements, AIB UK Group has an agreed Pillar 1 and Pillar 2a requirement of 9.86% for 2022, a reduction from 9.95% in 2021. AIB UK Group currently report capital on a transitional basis. See page 21 for more detail.

	Transitional	Fully loaded
Capital	£m	£m
CET1 at 31 December 2021	1,508	1,442
Movements:		
Reserves	131	131
IFRS 9 transitional adjustment	(20)	—
Deferred tax	(85)	(85)
Intangible assets	(3)	(3)
CET1 at 31 December 2022	**1,531**	**1,485**
Capital ratio at 31 December 2022	**24.11 %**	**23.54 %**

	Transitional	Fully loaded
Risk weighted assets	£m	£m
At 31 December 2021	6,611	6,554
Credit risk	(240)	(226)
Operational risk	(20)	(20)
CVA	1	1
At 31 December 2022	**6,352**	**6,309**

Regulatory changes

COVID-19 relief
A suite of measures was introduced to support the financial sector during the COVID-19 pandemic. These included the reduction in the Countercyclical Capital Buffer to zero introduced in March 2020 by the Bank of England, which in December 2022 returned back to 1%. Other capital measures include amendments to transitional rules for IFRS 9 in respect of COVID-19 related losses since March 2020. The COVID-19 transitional rate for IFRS 9 reduced from 100% to 75% during 2022.

Software
In accordance with the Commission Delegated Regulation (EU) 2020/2176, the deduction for intangible software assets from capital was reduced and replaced with a risk weighting in 2020 in response to the COVID-19 pandemic. The PRA revoked this European Union ('EU') regulation and so for UK firms all intangible assets are to be fully deducted from capital, as they were pre-2020. This has been reflected from 1 January 2022.

Leverage Ratio
Effective from 1 January 2022 the Financial Policy Committee and the PRA made changes to the UK leverage ratio framework. These changes involved a new definition of leverage total exposure measure as well as changed reporting and disclosure requirements. These rules were set out in full in PRA Policy statement 21/21. The new leverage ratio measure excludes claims on central banks and all Bounce Back Loans, which significantly increased the Bank's leverage ratio from 11.26% in December 2021 to 20.22% in March 2022.

Net Stable Funding Ratio
Following the UK implementation of CRR II / CRD V, the NSFR became a binding requirement under UK law from 1 January 2022. The Net Stable Funding Ratio ('NSFR') is a regulatory measure that seeks to ensure that banks hold enough stable funding to support their long-term assets and activities beyond a one year horizon. It is expressed as a ratio with a minimum requirement of 100%. Following its implementation in 2022, AIB UK commenced monitoring and reporting under the new CRR II NSFR rules and are compliant with its requirements.

Transitional and fully loaded ratio
AIB UK Group currently report capital on a transitional basis, taking into account transitional arrangements for the capital impact of IFRS 9 ECL accounting, which reduces on a phased basis by 2024.

Transitional CET1 of 24.11% increased in the year primarily due to a decrease in RWA which reflects a reduction in customer exposures as a result of the sale of GB SME loans and the sale of non-performing loans in addition to restricted lending in sectors impacted by the uncertain market conditions.

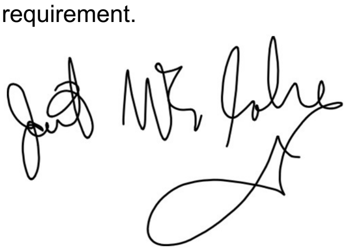
The removal of transitional arrangements from capital and RWA reduces the 31 December 2022 capital ratio from 24.11% to a fully loaded capital ratio of 23.54%.

Liquidity

AIB UK Group continues to have a strong funding position. The loan to deposit ratio was 69% at 31 December 2022 (2021: 62%). Regulatory liquidity requirements were met at all times throughout the year.

A substantial amount of AIB UK Group's funding is from its customer balances, which makes up 75% (2021: 79%) of its total liabilities and shareholders' equity.

Under Capital Requirements Regulation ('CRR'), the key liquidity metrics are the Liquidity Coverage Ratio ('LCR') and the NSFR. The LCR and NSFR minimum regulatory limits are set at 100%. As at 31 December 2022, AIB UK Group's LCR was 176% (2021: 169%) and NSFR was 145% (2021: 156%), both of which are significantly in excess of the minimum requirement.



Janet McConkey
Chief Financial Officer

6 March 2023

Alternative performance measures

An APM is a financial measure of performance, financial position or cash flow which is not a financial measure prepared using IFRS. These APMs, when considered in conjunction with the statutory results, provide the user of the financial statements with more information on the performance of AIB UK Group and its business activities. Items identified as adjusting are detailed below. The APMs and adjustments are in line with how management of AIB UK measure performance.

The following is a list, together with a description, of APMs used in analysing AIB UK Group's performance.

APM	Description
Net interest margin	Net interest income divided by average interest earning assets.
Average interest earning assets	Average interest earning assets includes loans and receivables to customers. Averages are based on month end balances for all categories with the exception of loans and receivables, which are based on daily averages.
Average rate	Interest and similar income divided by average interest earning assets.
Average interest bearing liabilities	Average interest bearing liabilities includes deposits by banks, customer accounts and intercompany balances. Averages are based on month end balances for all categories with the exception of customer accounts, which are based on daily averages.
Average cost of funds	Interest expense and similar charges divided by average interest bearing liabilities.
Adjustments	These are items that management believe due to their size or nature impact the comparability of performance from period to period: – Profit/ (loss) on sale of loan portfolio: loss from sale of AIB GB SME loans; and loss from sale of non-performing loans. – Portfolio migration income/fees: service fee income recovered from the acquirer of GB SME portfolio post derecognition. – Voluntary severance: the costs relating to employee exits during the year as part of targeted restructures. These voluntary severance payments are specific and particular to the individuals concerned. – Restructuring provision: professional fees and implementation costs associated with the strategy implementation and related property exits. – Impairment of property, plant and equipment: impairment of freehold properties on reclassification to Held for Sale; Impairment of right of use assets and on fixtures & fittings within properties that AIB UK are due to exit as part of the strategy implementation. – Customer redress: movements in provisions held in relation to customer restitutions. The costs of customer restitutions are accounted for as adjusted items as they occur, as they are not comparable to costs or income booked as operational in preceding financial periods. – Portfolio migration costs: professional fees and implementation costs associated with supporting the migration of AIB GB SME loans post derecognition of loan portfolio. – Profit on disposal of property: loss on properties exited during 2022. See note 33 for more detail.
Cost income ratio	Total adjusted operating expenses excluding Regulatory fees divided by total operating income.
Loan to deposit ratio	Loans and receivables to customers divided by customer accounts.
Coverage ratio	Drawn credit provisions divided by drawn total loans.
Non-performing exposure	Under IFRS 9, loans are identified as non-performing (Stage 3) by a number of characteristics. The key criteria are: – Where the Bank considers a credit obligor to be unlikely to pay his/her credit obligations in full without realisation of collateral. – 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. – Loans that have, as a result of financial distress (as defined within the Parent Group's definition of default policy), received a concession from the Bank on terms or conditions, and will remain in the non-performing probationary period for a minimum of 12 months before moving to a performing classification.
Non-performing ratio	Non-performing loans divided by total gross loans.

Our strategy

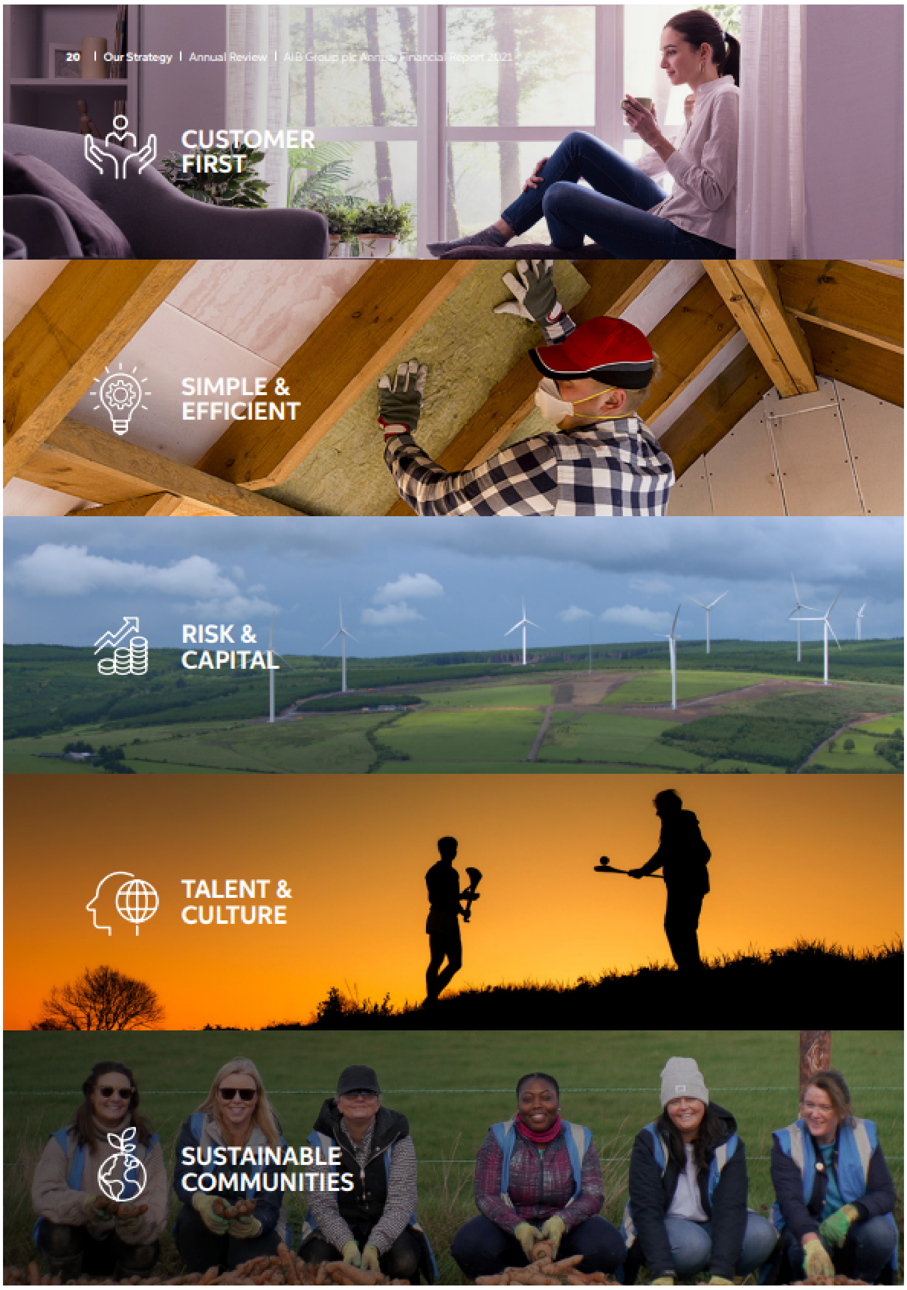
We are two years into our 2021-2023 strategy which was designed to simplify, strengthen and streamline our business in the interest of all our stakeholders. Preparatory work is underway for the next strategy development cycle.

Our purpose - to back our customers to achieve their dreams and ambitions - is reflected in our structure, strategy and in the values and behaviours we all believe in.

Whether it is adapting to a greener way of living, planning for the future, growing a business or simply navigating day-to-day life, our ambition as a Group is to be at the heart of our customers' financial lives every step of the way.

We aim to be a sustainable, capital-generative and efficient business delivering outstanding outcomes for our customers, our people, our shareholders and our stakeholders. Our business strategy aims to achieve a balance between investing to sustain competitiveness while delivering attractive returns.

Our five strategic pillars determine our areas of focus. Each of these pillars has an associated set of metrics against which we run our business and measure our progress.



Pillar	Measure	Description
Customer first We put our customers at the heart of our organisation, providing for the full range of their financial needs conveniently and responsibly. We use technology to personalise our product and service offerings.	**Overall NPS (NI)**	A measure of satisfaction across four customer journeys at key moments of truth for our Northern Ireland customer base
	Complaints per 1k customers	Number of complaints received per 1,000 customers
Simple and efficient Our organisation, technology and partnering strategies drive efficiency in our back-middle and front-office operations. We foster a culture of cost awareness and accountability, simplifying our processes and ways of working.	**Operational productivity / re-work**	Measure of the number of cases processed at each stage of the drawdown journey and level of re-work required
	Cost income ratio	Financial benchmark of efficiency
Risk and capital We maintain a strong risk management framework, high asset quality and robust capital levels. We deploy our capital efficiently through effective risk model development, evolved risk pricing and our strategic business model choices.	**Risk Adjusted Return on Capital**	A risk-based profitability measurement for analysing risk-adjusted financial performance
	Non-performing exposures	A measure of the credit quality of our loan stock
Talent and culture We ensure that we have the right talent, skills and capability within the organisation to fulfill our purpose and execute our strategy. We enable talent effectiveness through a diverse and inclusive culture that is built on accountability, collaboration and trust.	**Gender balance**	% females in management roles
	Engagement	Launch of new survey to measure staff engagement
Sustainable communities We play a leadership role in creating innovative propositions and partnerships to help our customers' transition to low-carbon economies. We make a meaningful contribution to the sustainability of the societies in which we operate.	**Green new lending**	% of new lending supporting the transition to a low carbon economy

Strategy 2021-2023

The 2021-2023 strategy is underpinned by five key strategic initiatives to reposition the business and drive growth:

Strategic initiative	2022 achievements	2023 and beyond
Reshaping our business	– Completed the migration of GB SME loans to Allica Bank and started the phased closure of transactional banking services. – Delivered a robust engagement programme to support our customers to find new banking relationships and navigate through the process.	Complete the phased closure of our transactional banking services to SME customers and complete our withdrawal from the SME GB market; making sure to treat these customers fairly.
Corporate growth	– Supported our customers through £1.3b of new lending. – Transitioned to a new operating model designed to increase our customer engagement.	Continued focus on our corporate sectors, namely Energy & Infrastructure; Housing; Commercial Real Estate; Healthcare; Manufacturing/Industrial & Diversified Industries; whilst supporting our Hospitality & Leisure customers to recover post-pandemic.
Retail and NI	– Streamlined the branch footprint to ensure a sustainable business operation. – Created strong partnerships to deliver ongoing banking services for our customers and communities.	Build an all-island AIB brand, leveraging Parent Group capabilities.
Streamlining operating model	– New operating model, enabling high standards and improved customer journeys through efficiency and collaboration.	Continue to streamline and strengthen our operating model to ensure maximum efficiency and improved customer journeys and experience.
Sustainability	– Increased focus on green new lending. – Reduced scope 1 & 2 emissions.	Ongoing emphasis on climate & environment, economic & social inclusion and future proofing the business.

Sustainability

Sustainable communities

Sustainable communities is a strategic pillar of both the Parent Group's and AIB UK's business strategy that aims to ensure a greener tomorrow by backing those building it today. Within this strategy there are three pillars; climate and environment; economic and social inclusion; and future proof business.

The Parent Group's overarching targets, which AIB UK contributes to the achievement of, are:

Climate & environment

– €10bn in new climate and environmental lending by 2023
– Net Zero in our own operations by 2030
– 70% of new lending to be green (including transition) by 2030
– Net Zero emissions from customer lending portfolio (excluding agriculture) by 2040
– Net Zero emissions from customer lending portfolio (including agriculture) by 2050

Economic & social inclusion

– €800m in finance for social housing by 2024
– Ongoing focus on AIB in our community

Future proof business

– +53 Transactional Net Promoter Score by 2023
– >2.25m digitally active customers by 2023
– Ongoing gender balance[1] at Board, Leadership Team and all Management levels

To ensure AIB UK is contributing towards and progressing against these targets and that Sustainable Communities remains a core consideration in everything we do, oversight of climate change and material items is reviewed at the Parent Group Board level, and the AIB UK Board maintains oversight of climate change and other areas of sustainability as it relates to AIB UK.

Senior Manager Regime accountability sits with the UK Head of Customer, Insights, Support and Enablement ('CSIE') reporting to the UK Managing Director.

Regular training on ESG matters is provided to the UK Board, Leadership Team and to all colleagues. Mandatory training modules include Sustainability 101, Energy & Environmental Awareness and Climate Risks and Opportunities. Sustainability objectives are required for all colleagues.

The following pages contain a summary of progress to date for AIB UK. For more information, see AIB Group plc's Sustainability Report[2], as part of AIB Group plc's performance management Aspire programme.

For more information see our Sustainability Report 2021

Climate & environment

Managing climate change is the most important challenge facing this generation and the role of finance in supporting the transition to a low carbon economy is pivotal. Decisive action on climate change is needed in order to meet goals set by the Paris Agreement. AIB UK can support the transition to a low carbon economy in many significant ways by reducing carbon emissions in our own operations and by providing products and services that support our customers to reduce their own carbon footprint.

To reduce the energy consumption of our UK property portfolio we have adopted a continuous improvement approach to increase our energy efficiency in our operations based on ISO 50001.

The AIB UK 2023 - 2025 financial plan includes emissions reduction targets across key sectors to monitor and measure progress to reducing carbon intensity over the short, medium and long term.

The Group Credit Risk Policy includes a list of excluded business activities that are considered to be incompatible with our strategy due to their negative environmental impacts.

(1) *The Gender Equality Global Report and Ranking – 2021 Edition equates "gender balanced" with between 40% and 60% of women*
(2) *https://aib.ie/sustainability/detailed-sustainability-report-for-2021*

Governance and management of climate risk

We recognise that climate change risk continues to evolve rapidly and are committed to managing our climate risk. In line with PRA SS3/19 requirements, climate-related financial risks are integrated through our existing risk management frameworks.

The Parent Group has undertaken scenario analysis and participates in climate-related disclosures, such as the Task Force on Climate-related Financial Disclosures ('TCFD'). To view the Parent Group's disclosures against TCFD recommendations, please refer to the Sustainability Report [https://aib.ie/sustainability/detailed-sustainability-report-for-2021].

Green lending

As part of the Bank's sustainability strategy, green and transition lending should account for 70% of new customer lending by 2030.

The AIB Sustainable Lending Framework[3] is a classification and measurement tool for new lending. It sets out criteria to provide transparency on the types of activities we would consider to be Green, Transition, or Social. The Framework also aligns with our regulatory obligations to understand the impact of our lending on both the climate and society. AIB also has a Green Bond Framework under which it or any of its subsidiaries can issue green bond instruments to finance and/or refinance green eligible loans with a positive environmental benefit.

In 2022, 40% of AIB UK's total new lending was green. Green mortgages[4] accounted for 29% of total new mortgages.

Our carbon emissions

Under SI 2018/1155, the Streamlined Energy & Carbon Reporting ('SECR') regulations, set out below is the energy consumption and related carbon emissions which result directly from the operations in AIB UK. This complies with the requirements of The Large & Medium-Sized Companies and Groups (Accounts & Reports) Regulations 2008.

The energy & carbon emissions data set out below, is related to the period 1 January to 31 December (inclusive). In reporting this data, we have followed the UK Government Environmental Reporting Guidelines. We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and emission factors from the UK Government's GHG Conversion Factors for Company Reporting. We have adopted the operational control approach on reporting boundaries to define our reporting boundary. They include all locations where AIB are responsible for the utility costs.

During 2022, AIB implemented a hybrid working policy which governs working from home. Part of the energy reduction across AIB UK can be attributed to reduced operational capacity within our buildings. These changes along with a reduction to the Estate portfolio, have seen over 500,000 kWh of energy reduced from 2021 to 2022.

Our CO_2 emissions (1 January to 31 December)[1]	2022	2021	2020	2019
Location-based carbon emissions				
Total tCO_2e[(2)]	**TBC[9]**	**1,449**	**1,445**	**2,858**
Total Scope 1[(3)] (natural gas, heating oil & car fuel)	175	286	228	282
Total Scope 2[(4)] (purchased electricity)	409	448	446	564
Total Scope 3[(5)] (rental car & staff business car travel)	see note 9	715	771	2,012
Out of Scope[(6)] (green gas from biomass)	—	11	43	16
Market-based carbon emissions				
Total tCO_2e[(2)]				
Total Scope 2[(4)] (purchased electricity)	—	—	—	—
Intensity ratio				
Average full time equivalent ('FTE')[(7)]	672	922	997	1,026
Total CO_2e per FTE (Location-based)	see note 9	1.57	1.45	2.79
Scope 1&2 per FTE (Location-based)	0.87	0.80	0.68	0.82
Energy consumption (kWh)[(8)]	2,562,536	3,456,101	3,322,943	4,036,114

Notes:

1. The carbon reporting year for our GHG emissions is 01 January to 31 December. In 2021, we aligned for the first time, our carbon reporting with our financial reporting. Our Scope 1 & 2 emissions for 2022 are TBC tCO2e. Scope 3 emissions are reported one year in arrears. AIB Group 2022 full GHG inventory will be disclosed in our CDP 2023 report. AIB Group 2020 and 2021 emissions and details of our approach to assurance over the data can be found here: https://aib.ie/sustainability.
2. The methodology is in line with the GHG Protocol: A Corporate Accounting and Reporting Standard and the Defra Voluntary Reporting Guidelines. We have adopted the operational control approach on reporting boundaries. They include all locations where

[3] *https://aib.ie/content/dam/frontdoor/personal/sustainability/aib-sustainable-lending-framework.pdf*

[4] *Green mortgages are offered to new & existing mortgage borrowers buying a private dwelling which has an Energy Performance Rating ('EPC') of A or B.*

AIB are responsible for the utility costs. Estimations have been included where AIB do not have responsibility for utility costs. Figures are rounded.

3. Direct (Scope 1) include AIB UK fuels combustion, Biomass (CH_4 and N_2O), fleet and fugitive emissions. The direct CO_2 associated biomass usage is reported separately from this scope. Since 2021, AIB UK has no mobile combustion emissions. There were no biomass emissions in 2022 due to changes in the AIB UK Property Portfolio.
4. Indirect (Scope 2) includes consumption of all AIB UK purchased electricity.
5. Scope 3 covers indirect AIB UK emissions from the following categories: Purchased goods and services, Capital goods, Waste generated in operations, Business Travel, Employee commuting and Fuel-and-energy-related activities.
6. Out of Scope (biogenic emissions): CO_2 Emissions from biomass combustion (green gas).
7. Intensity ratio calculations have been calculated using Full Time Employee ('FTE') of employees based in the UK, which are year average.
8. Energy consumption data is captured through utility billing; meter reads or estimates. It includes energy from electricity consumption, gas combustion, heating fuel combustion and transport. Note that 2022 Energy consumption excludes fuel use in personal/hire cars for business use. We will re-state this figure when this data is available to us.
9. 2022 AIB UK total CO_2 emissions are not yet available as Scope 3 emissions are reported one year in arrears. We will update this figure in future reporting.
10. 2021 figures have been updated as per last re-statement, issued in 2023. This exercise was completed in accordance with the GHG Protocol guidance and allowed the incorporation of 12 months of actual data.

Economic & social inclusion

AIB endeavours to achieve a fairer society that is socially and economically inclusive. Some key highlights in 2022 include the following:

– We continued to support our SME customers with four British Business Bank COVID Loan Schemes;
– We supported access to affordable homes through our lending to social housing. These loans form part of the Parent Group Social Bond Issuance;
– Our colleagues spent 285 hours volunteering through their entitlement to take two volunteering days per year;
– We donated £124,500 to charities of our customers' and employees' choice through our new Community Fund, colleague fundraising initiatives and employee matched funding;
– We implemented our new Customer Vulnerability Guidelines to support our staff in recognising when customers are in need of additional care, support or protection;
– Training was held in partnership with charities such as Alzheimer's Society, GamCare and Surviving Economic Abuse to upskill customer-facing colleagues to extend breadth of support for vulnerable customers;
– Delivered the "Successful Sustainability with AIB" programme in partnership with the Northern Ireland Chamber of Commerce and Industry to 153 business employees from across Northern Ireland, resulting in over 300 continued professional development hours on topics across sustainable business practices.

Future proof business

Our future sustainability depends on our ongoing investment in our business, people and processes. Work undertaken in 2022 supported our goals of providing positive experiences for all our customers, creating an attractive place to work for our staff, and investing in the resilience of our business:

– 43% of colleagues in management roles (defined as levels 4 - 6, out of a total of 6 employee bands) are female;
– We continue to engage and adapt to changing market conditions to ensure AIB remains an employer of choice through our Employee Value Proposition;
– Following the issue of the FCA Consumer Duty final guidance in July, we have established our own Consumer Duty Programme to ensure the high standards expected by the FCA are reflected in our customer journeys, our products and services, our communications and support models, and are embedded in our culture and ways of working.
– In regards to customer feedback, our Net Promoter Score for 2022 was +34 (2021:+47). This is a deterioration on previous years and work is ongoing to improve the customer experience;
– As part of our lean/continuous improvement work, DocuSign (digital signature tool) was implemented across five customer communication processes to improve the customer experience, shorten processing time and reduce paper usage;
– In an increasingly digitalised world, we are focused on keeping our systems resilient and our data secure.

Non-financial & sustainability information statement

In AIB UK, policies and codes are in place to enable us to operate our business in a responsible and sustainable way.

In accordance with sections 414CA and 414CB of the Companies Act 2006 the table below sets out the key policies we have in place that are related to the non-financial and sustainability information required in the Strategic Report, as well as a description of them and how their effectiveness is monitored.

All policies listed below are Parent Group-level policies, wholly applicable to AIB UK and reviewed in line with the Parent Group's Policy Governance Framework.

Our non-financial and sustainability key performance indicators can be found in this report on page 23 and within the Sustainability section.

Information related to our business model can be found in the Our Strategy section on pages 22-24.

ESG and sustainability have been considered as a risk driver across all material risks. Please find the Risk Management Report from page 34.

Please refer to the Parent Group's Annual Financial Report to review AIB Group plc's TCFD disclosure - www.aib.ie/investorrelations.

Environmental matters		
Policies and frameworks which govern our approach	**Description of policy/framework**	**Relevant information to help understand impact and outcomes**
Environmental policy[1] **Energy policy**[1]	The purpose of our Environmental policy is to enable us to carry out our business in an environmentally responsible and compliant manner. Our Energy policy enables us to carry out our business as energy efficiently as possible, reduce our carbon footprint and to achieve continuous improvement in energy performance.	• Climate and environment objectives – page 25 • Our approach to climate and environment - page 25, 26 • Emissions data - page 26, 27 • AIB Group plc Sustainability Report[3]
Sustainable Lending Framework[1]	The Framework was developed to provide transparency on the criteria that AIB employs in reporting on green and transition lending to help us achieve our ambition that 70% of new lending should be green or transition by 2030.	• Non-financial and sustainability performance - page 3 • Managing Director's Report - page 9 • Climate and environment objectives – page 25 • Green lending - page 26 • AIB Group plc Sustainability Report[3]
Green Bond Framework[1]	AIB has established this Framework under which it or any of its subsidiaries can issue green bond instruments to finance and/or refinance green eligible loans with a positive environmental benefit. The Framework also defines the portfolio of loans eligible to be funded by the proceeds of Green Bond Instruments issued by AIB.	• Green lending - page 26 • AIB Group plc Sustainability Report[3]
Key material risks: Strategic Business Model; Operational; Model; and Credit		

Employee Matters		
Speak up policy[1]	Sets out how key stakeholders such as colleagues, contractors and suppliers can safely and confidentially raise a concern. Anonymised reports are reviewed by the Parent Group Board Audit Committee at least once a year, as well as the UK Board Audit Committee.	• Section 172 (1) - page 31
Health and Safety policy[1]	This policy sets out the practical steps we must take to ensure the safety of our employees, customers, contractors, visitors and our workplaces, and defines and communicates the roles and responsibilities for health and safety throughout AIB.	• Mental health training - page 9 • Health and Safety Report[1] • AIB Group plc Sustainability Report[3]
AIB Code of Conduct[1]	Our Code of Conduct sets out how we are expected to behave in a manner consistent with our values and asks us, individually and collectively, to Do the Right Thing. It applies to anyone working in AIB. Colleague training undertaken on the Code and any breaches are reported annually to the Board Audit Committee.	• Conflicts of interest - page 44 • Board Audit Committee - page 46 • Code of Conduct - page 54 • AIB Group plc Annual Financial Report[4]
Inclusion and Diversity Code[1]	Commits AIB to creating an inclusive and supportive organisation that delivers a superior experience for customers, provides an extraordinary place to work, and brings an appropriate financial return for shareholders and the economies in which it operates. Talent and Culture is one of the key strategic business pillars.	• Women in management - page 3, 4, 27 • Commitment to gender balance and Women in Finance Charter - page 9 • Talent and culture KPIs - page 23
Key material risks: Regulatory and Compliance; People and Culture; Conduct; and Operational		

Social matters		
AIB Responsible Supplier Code[1]	Sets out our expectations that our suppliers conduct their business in a fair, lawful, and honest manner with all their stakeholders. It describes our expectations on human rights, health, safety and welfare, supply chain, and inclusion and diversity. Suppliers are expected to abide by it, along with all applicable laws, regulations, and standards in the countries in which their business is conducted.	• Future-proof business - page 27 • https://aib.ie/suppliers/our-standards
Conduct Risk policy[2]	Sets out our approach to effective identification and management of our conduct risks and includes our approach to vulnerable customers.	• Progress on customer vulnerability as part of Conduct Risk aims - page 27 • AIB Group plc Sustainability Report[3]
Socially Responsible Investment Bond Framework[1]	The purpose of the Framework is to fund domestic and international projects aimed at global sustainability, carbon emission reduction, and social improvement, all under the over-arching themes of ESG. In order to ensure we maintain a strong presence in the sustainable bond market, and continue to fund positive impact projects, it is our continued ambition to grow the SRI Portfolio to at least 10% of AIB's total Investment Securities. To affirm this commitment to the sustainable bond market, we disclose the size of our SRI Portfolio in AIB's Sustainability Reports.	• Economic and social inclusion - page 27 • AIB Group plc Sustainability Report[3]

Credit Risk Framework[2]	An overarching Group-wide credit risk document that sits within the Risk Management Framework of the Group and sets out the principles and governance arrangements for the identification, assessment, measurement, management, monitoring and reporting of credit risk within the Group and defines Credit Risk Culture. This Framework is supported by the Group Credit Risk Policy and by a suite of individual Credit Risk Management and Credit Risk lending Policies that may be relevant to social sustainability, such as the Social Housing policy and our Excluded Activities List[1], as well as environmental matters through our Project Finance policy.	• Non-financial and sustainability performance - page 3 • Economic and Social Inclusion - page 27 • Credit risk - page 38 • Current and emerging risks and uncertainties - page 42 • Board Risk Committee - page 47
Key material risks: Operational; Conduct; Credit; and Regulatory and Compliance		

Respect for Human Rights		
Modern Slavery and Human Trafficking Statement 2022[5]	Demonstrates our commitment to the protection of human rights in our direct operations and our supply chains through measures outlines in our Human Rights Commitment[1]. This Statement is updated annually in line with the Modern Slavery Act 2015 legislation.	• Future-proof business - page 27 • Section 172 (1) - page 31 • Human Rights Commitment[1]
Key material risks: Regulatory and Compliance; and People and Culture		

Anti-corruption and anti-bribery matters		
Financial Crime policy[2]	Sets out approach to effective risk management of financial crime, including: (i) anti-bribery and corruption; (ii) anti-money laundering and countering the financing of terrorism; (iii) financial sanctions; and (iv) fraud. The Policy complies with all legal and regulatory requirements. The Board Risk Committee receive periodic and incident reporting from the Head of Financial Crime UK.	• Board Audit Committee - page 46 • Board Risk Committee - page 47 • Financial crime prevention - page 54
Conflicts of Interests policy[1]	Sets out the practices and standards designed to avoid conflicts of interest arising and to manage these where they are unavoidable. Effectiveness is monitored through the Three Lines of Defence model.	• Director disclosures process - page 44 • Board Audit Committee - page 46
Key material risks: Regulatory and Compliance; and Conduct		

[1] *These policies are publicly available at aib.ie/sustainability under 'Related Codes & Policies'.*

[2] *These policies have not been published externally.*

[3] *AIB Group plc Sustainability Report - https://aib.ie/sustainability.*

[4] *AIB Group plc Annual Financial Report - https://aib.ie/investorrelations/financial-information/results-centre.*

[5] *AIB Group Modern Slavery Statement Archive - https://aib.ie/group/modern-slavery-statement.*

Section 172(1) statement

The Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so had regard, amongst other matters, to:

– the likely consequences of any decision in the long term;
– the interests of the Company's people;
– the need to foster the Company's business relationships with suppliers, customers and others;
– the impact of the Company's operations on the community and the environment; and
– the desirability of the Company maintaining a reputation for high standards of business conduct.

The Directors have considered who the stakeholders of the business are and concluded that the following stakeholders were material to the Company in the year ended 31 December 2022. The Directors also took into account the views and interests of a wider set of stakeholders, including our AIB UK pension holders. Certain stakeholder engagement is conducted at a Parent Group level to engage on matters of Parent Group-wide significance to ensure an efficient approach.

Stakeholder	Who	How
Our Customers	Our purpose is to back our customers to achieve their dreams and ambitions, and our ambition is to be at the heart of our customers' financial lives by meeting their evolving needs at every life stage.	Directors carefully monitored the customer migrations that took place during the course of 2022 and received updates at Board meetings on customer priorities and experiences, including the performance of our Customer Contact Centres, digital banking solutions and Net Promoter Score. Following the easing of COVID-19 Directors re-engaged with customers at a number of events across GB and NI. These events allowed customers to provide direct feedback which in turn helped inform decision making. The events also allowed the Directors to reiterate the ways in which AIB UK can support and assist customers. Joe Higgins, Non-Executive Director, was appointed as our Consumer Duty Champion. Additionally, Directors agreed an Implementation Plan in October 2022 to achieve compliance with the FCA Consumer Duty. This plan will be monitored closely by the Board as work progresses through 2023.
Our Colleagues	As at 31 December 2022, AIB UK employed 659 people across Great Britain and Northern Ireland	Directors hosted a number of colleague engagement events across our office locations at which colleagues were encouraged to raise issues without the presence of the UK Leadership Team. The feedback received provided the Board with an enhanced understanding and insight of the experience of our people, business challenges and support required. Due to previous decisions taken to deliver the strategic initiatives, a number of roles became vacant at the start of 2022, placing additional pressures on those who remained. Directors have been cognisant of this and have maintained oversight of Management's actions to address the situation. Retaining talent, hiring the right people, developing & maintaining a strong succession pipeline and ensuring that the Bank offers a competitive Employee Value Proposition have all been key considerations for Directors throughout 2022. Progress has been made in a number of these areas with further activity underway. Directors have continued to promote the use of Speak Up with Graham Buckland, Senior Independent Director, acting as Speak Up Champion. Graham Buckland and Hilary Gormley, Managing Director, delivered a video message to all colleagues on the importance of the subject. Directors have been mindful of inclusion and diversity. The Board have approved their own Diversity Policy for the year as well as monitored inclusion and diversity among employees with Helen Normoyle, Non-Executive Director, acting as champion for Female Diversity and providing a blog for International Women's Week. Directors have also reviewed and monitored the Gender Pay Gap among employees.

Stakeholder	Who	How
Our Parent Group	Engagement with the Parent Group is crucial to understanding the AIB Parent Group Strategy and the role of AIB UK within that.	Directors maintain active engagement with the Parent Group with regular updates at Board meetings from the Parent Group nominated Directors, Helen Normoyle and Geraldine Casey. The Parent Group's Chief Executive Officer and newly appointed Chief Risk Officer attended a number of Board and Committee meetings throughout the course of the year. Similarly the Chairs of several of the Board Committees attended and presented to their equivalent Parent Group Committees. The Board Chair also attended the Parent Group's Strategy Day. Other informal interactions also take place throughout the year between the Directors of AIB UK Group and the Parent Group, all of which supports continued engagement between the two Boards. As in line with governance requirements, the Parent Group was consulted on the appointments to the Board throughout the year.
Our Regulators	Our Regulators include the Prudential Regulation Authority and the Financial Conduct Authority. Strong engagement with our Regulators ensures that we are well positioned to meet our regulatory requirements and expectations.	Directors have open and regular dialogue with the Bank's regulators through continuous assessment and proactive engagement meetings. PRA representatives attended the Board meeting in November 2022 to present and discuss their annual Periodic Summary Meeting letter. A number of Board approved regulatory submissions have been provided to Regulators throughout the year, including Operational Resilience self-assessment.
Communities and the Environment	The Bank is committed to managing the wider social, environmental and economic impacts of its operations.	Sustainable Communities is a strategic pillar of the business strategy. Directors have committed that green and social lending be at the core of financial plans for key sectors including renewables, social housing, student accommodation and mortgages for private dwellings. It is recognised that climate change must have greater prominence at both senior management and board levels; and Directors have instructed management to more closely align with and better leverage propositions and initiatives being developed at the Parent Group level. Directors have approved the Modern Slavery Statement, Gender Pay Gap Report and the Payment Practices Reports.

The table above sets out our focus on our key relationships. Not all feedback is reported directly to the Board, however, the information will inform business-level decisions, with an overview of developments being reported on a regular basis to the Board or Board sub-committee. In some cases, this will be through an annual or more frequent round-up for the business area interfacing with the relevant stakeholder. In other instances, one or more members of the Board may be involved directly in the engagement. In each case, it is important for all members of the Board to gain sufficient understanding of the issues relating to every stakeholder so their views are taken into account in Board decisions.

Examples of Stakeholder Consideration

The following are some examples of how stakeholder interests were considered in the principal strategic decisions made by the Board.

Supporting Our Customers		
Our Customer First strategic pillar is a core consideration for the Board in its deliberations and brings a customer lens to all discussions to ensure positive customer outcomes are reached. In 2022, this took the form of monitoring the customer migrations that resulted from the sale of the performing GB SME business and loan book to Allica Bank. Directors oversaw and supported Management in providing extensions to those customers that required additional time and support in relocating their accounts elsewhere. Customer treatment strategies were developed for different cohorts using learnings from previous portfolio sales and Directors ensured that these had been considered through the appropriate governance fora.	Our Customers Our Parent Group	Regulators

Strategy		
Acknowledging that the business had now reached the midpoint for the current strategy, it was deemed beneficial to assess the progress that had been made thus far, to confirm if the strategy remained valid and achievable along with the priority actions and next steps. Consideration was given to the success of the strategic implementation, the impact upon our customers, communities and employees. This was compared against the ambition of what was to be delivered and there was significant engagement with the Parent Group to secure support and assistance to realise and reaffirm ambitions.	Our Customers Communities and the Environment	Our Colleagues Our Parent Group

Appointment of Managing Director		
Following the decision of Robert Mulhall to resign, careful consideration was given to the appointment of his successor, particularly in light of the re-shaped business and future plans: namely a greater focus on Corporate Banking, optimising the Northern Ireland proposition and developing a high-performance culture supported by an agile and lean organisation shape. In appointing Hilary Gormley as Managing Director, the Board considered our customers, employees and our Regulator. In line with our governance requirements, our Parent Group was also part of the appointment process.	Our Customers Our Colleagues	Regulators Our Parent Group

This Strategic report was approved by the Board and was signed on its behalf by:

Hilary Gormley

Hilary Gormley
Managing Director

6 March 2023

Risk management report

Introduction

Risk is inherent in the provision of financial services and AIB UK assumes a variety of risks in undertaking its business activities. A risk is defined as the possibility of an event occurring that could have an impact on the achievement of a business or process objective, for example, damage the core earnings capacity of the Bank; increase cash flow volatility; reduce capital; threaten business reputation or viability; result in a breach of regulatory or legal obligations; or give rise to poor customer outcomes. Consequently, effective risk management is essential to AIB UK and a key part of its overall strategy in achieving sustainable growth, with Risk and Capital one of the AIB UK's five strategic pillars. This is underpinned by the need to have a strong risk culture, which is driven by and reflected through the Bank's Values, frameworks and policies and the Three Lines of Defence model. Collectively, these establish the foundation for management and ownership of risk. To further embed this, every employee is required to adopt a relevant risk management objective as part of the annual performance management process to acknowledge the risk responsibilities that are inherent in their role.

AIB UK's integrated approach to identifying, assessing, managing, measuring, monitoring, escalating and reporting risks is summarised in the 13 Risk Management Principles set out in the overarching Parent Group Risk Management Framework. These Principles govern the design and operation of effective risk management within the Bank. The material risks affecting the Bank, as identified through the Material Risk Assessment process, are set out later in this section from page 36.

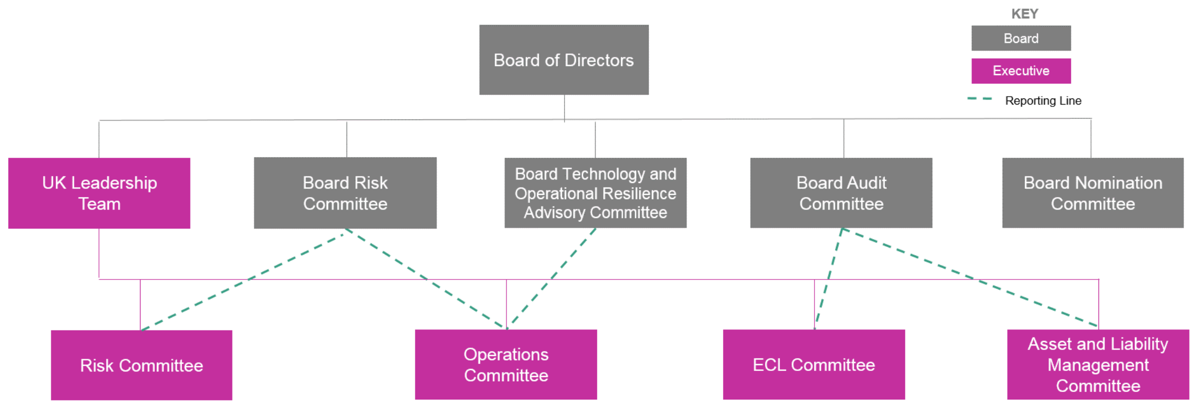
Strategic risk activities and enhancements to the risk management approach in 2022 include:

- Operational Resilience with focus to date on identifying, defining and setting impact tolerances for AIB UK's Important Business Services with first annual Self-Assessment signed off by the Board in Q1 2022. Requirements will continue to be implemented over a three year embedding period, including severe but plausible scenario testing.
- Progress in integrating the Bank's Sustainability agenda throughout risk management processes, including assessing physical and transitional climate change risk drivers across AIB UK's material risks, and Environmental, Social and Governance ('ESG') considerations incorporated within risk frameworks, policies and credit applications and in qualitative statements of risk appetite. A multi-year sustainability programme is being implemented with a specific work stream to further support the integration of ESG risk into our risk management framework; and
- Building on the linkage across key risk processes by ensuring material risks are measured and managed across the risk spectrum from business-as-usual (e.g. Risk Appetite and Strategic Planning) to stress scenarios (e.g. Internal Capital Adequacy Assessment Process ('ICAAP'), Recovery and Resolution) to support organisational preparedness against a backdrop of a highly volatile macroeconomic environment and geopolitical instability. For Resolution this included submission to the Single Resolution Board ahead of the 1 January 2023 deadline to meet the expectations as set out in the Bank of England's Resolvability Assessment Framework.

Risk Management Principles	
Strategy	
1.	The Board has ultimate responsibility for the governance of all risk taking activity in the Bank.
2.	The Bank has adopted a Three Lines of Defence model and risks are managed in alignment with the model.
Identification, Appetite & Assessment	
3.	The Bank identifies, assesses and reports all its material risks as per the material risk assessment taxonomy.
4.	The Bank operates and manages its risks in line with the Risk Appetite Statement.
5.	Risk Management is embedded in the strategic planning, performance management and strategic decision making process of the Bank.
6.	The Bank develops and uses models across a range of risks and activities to inform key strategic business and financial processes.
Monitoring & Reporting	
7.	The Bank understands, manages, measures, monitors and reports all risks it takes or originates.
8.	The Bank aims to provide clarity in all its communications which will help to better inform business decisions.
Risk Culture	
9.	The Bank supports the delivery of a strong risk culture.
10.	Risk Management capabilities are valued, encouraged and developed.
Control Environment	
11.	The Bank has a system of internal controls designed to mitigate rather than eliminate risk.
12.	A comprehensive, fit-for-purpose framework and policy architecture is in place to support risk management and is reviewed regularly.
Environmental, Social & Governance Approach	
13.	The Bank accepts that certain additional and measured risks may be taken across the short to medium term to support ESG initiatives for the benefit of all its stakeholders over the long term.

Risk governance

Risk governance is integral for effective risk management across the Bank and the structure is designed to facilitate the reporting, evaluation and escalation of risk concerns upwards to the Board, which has ultimate responsibility for the governance of all risk taking activity in AIB UK. The Board has delegated a number of risk governance responsibilities to various sub-committees. The activities of the Board and Board sub-committees are included in the Corporate Governance Report on page 43.



UK Leadership Team ('UKLT')
The UKLT is chaired by the UK Managing Director, and is responsible for managing strategic business risks. The Committee leads a single purpose-led organisation, where strategic and operational plans are fully aligned and consistent with the five strategic pillars; Customer first, Risk and capital, Simple and efficient, Talent and culture and Sustainable communities. The committee executes the business strategy within which the risk management function operates.

UK Risk Committee ('UKRC')
The UKRC is chaired by the Chief Risk Officer ('CRO') and is responsible for governance of all risks in the Bank, ensuring that risks are properly identified, assessed, managed, measured, monitored, escalated and reported in accordance with the Parent Group Risk Management Framework. It also ensures action plans to manage or mitigate risks are approved within agreed risk appetite.

The sub-committee of the UKRC is UK Conduct Committee that is responsible for oversight of conduct across AIB UK and provides assurance to UKRC and to the UK Board that AIB UK's conduct risk management is consistent with UK regulatory requirements, with AIB UK strategy and with the Parent Group Risk Framework.

UK Credit Committee ('UKCC') is a sub-committee of the Parent Credit Committee and has reporting line into UKRC. UKCC is responsible for exercising approval authority for exposure limits to customers in line with the Board approved policies.

UK Operations Committee ('UK OpCo')
The UK OpCo is chaired by the Chief Operating Officer ('COO') and is responsible for the governance of key operational infrastructural activities including third party supplier performance, operational resilience, business continuity, IT and cybersecurity oversight, data quality and change. The committee is responsible for overseeing the implementation of AIB UK's third party management framework, approving all UK impacting suppliers and escalating any critical suppliers to the Board for approval.

The sub-committees of the UK OpCo are the UK Data Quality & Governance Committee that is responsible for the governance, oversight and approval of data and analytic activities; the UK Change Committee that is responsible for the prioritisation and approval of all change requests within agreed investment budgets, recommending changes to yearly Investment Planning submissions and oversight of all change programmes impacting AIB UK; and the UK Third Party Management Sub-Committee that is responsible for review and approval of Tier 3 & 4 Third Party Service and Risk Assessments.

UK Expected Credit Loss ('ECL') Committee
The UK ECL Committee is chaired by the CFO and is responsible for review, challenge and approval of UK ECL provision stock and material changes in customer specific provisions. Delegated authority from UKLT became effective from December 2022; previously a sub-committee of the UK Asset & Liability Management Committee.

UK Asset & Liability Management Committee ('UK ALCo')
The UK ALCo is chaired by the CFO and is responsible for the review and management of funding and capital implications to the balance sheet, for monitoring asset and liability management against approved risk appetite limits and for oversight of funding, liquidity capital and market risks in line with relevant framework and policies.

The sub-committees of the UK ALCo are the UK Loan Pricing Committee that is responsible for providing approval of deals on a deal by deal basis that are outside pricing discretion thresholds; and the Product & Pricing Committee that is responsible for governance and oversight of products, propositions and channels and reviews and approves (where appropriate) the pricing strategies for products.

Three lines of defence

AIB UK operates a 'Three Lines of Defence' ('3LOD') model in the delineation of accountabilities for risk management activities, with the AIB UK Board ultimately responsible for ensuring the effective operation of the 3LOD model, supported by the Executive Committees.

The Bank continues to further embed the 3LOD model through its organisational structure and operating model to provide clarity regarding risk management accountabilities and strategic decision making processes. Work has continued in 2022 in respect of the application of the 3LOD principles, criteria, roles and responsibilities across the first and second lines of defence, and focus on closing the remaining one actions identified from LOD assessments undertaken in 2020.

Three Lines of Defence	
First Line of Defence ('1LOD')	Revenue generating and client facing areas, along with all associated support functions comprise 1LOD, which own the risks which they take through their day-to-day activities and have primary responsibility for risk management including identifying, measuring and monitoring these risks and ensuring that effective governance and controls are in place to mitigate them. To complement this work, and to provide independent assessments on governance, risk management and control processes, first line assurance activity is also undertaken.
Second Line of Defence ('2LOD')	Risk, including the Compliance function, as the 2LOD provide independent oversight and challenge to 1LOD, and advice and guidance, with regards to risk management. This includes the setting of risk strategy (articulated through the Risk Plan), frameworks, policies, and limits, consistent with Risk Appetite; credit sanctioning activities; monitoring and challenging the effectiveness of risk management and control processes; and providing independent, objective assessment and reporting on AIB UK's risk exposure and profile. This is supported by second line assurance activity to assess the adequacy of the design and effectiveness of the control environment.
Third Line of Defence	Group Internal Audit is a function within the organisation, independent of the first and second lines of defence, providing to the Board of Directors through the Board Audit Committee, an independent view on the key risks facing the Bank, and assurance on the adequacy of the design and the operational effectiveness of governance, risk management and the internal control environment.

Risk appetite

Risk appetite is the nature and extent of risk that the Bank is willing to take, accept or tolerate in pursuit of its business objectives and strategy. AIB UK's Risk Appetite Statement ('RAS') is an articulation of the tolerance and philosophy for risk taking which has been approved by the Board and is aligned to the Parent's risk appetite. The RAS is expressed through qualitative statements about the nature and type of risk the Bank is willing to accept and quantitative limits and thresholds that define the range of acceptable risk across all of the Bank's material risks. The RAS seeks to encourage appropriate risk taking by setting direction and boundaries to ensure the risks taken are consistent with the business strategy. These are cascaded through the business in frameworks, policies, authorities, sector guidelines and limits. This is a key mechanism to support the embedding of a strong risk culture and to fostering responsible risk-taking and risk management behaviours throughout the organisation. Performance against risk appetite is reported to the Board on a monthly basis via the CRO Report.

Risk assessment

AIB UK undertakes a top-down Material Risk Assessment ('MRA') process on at least an annual, and more frequently in times of rapid change in the internal or external environment. The MRA identifies and assesses the risks to which the Bank is exposed in the context of achieving the approved business strategy, to ensure that threats are being appropriately managed, and that the relevant risks are considered for capital purposes. This also includes consideration of external risk drivers that could influence the impact or likelihood of the Bank's material risks although the frequency cannot normally be influenced through management action. Risk drivers may also cut across a number of different risks, such as the physical and transitional risks associated with climate change, geopolitical instability and macroeconomic uncertainty. As well as identifying material risks, the MRA is a key input into:

- The RAS, informing decisions around risk taking in pursuit of its business objectives;
- The Financial Plan, in understanding the key risks to achieving the Bank's strategic and financial objectives;
- A comprehensive framework and policy architecture, for managing and mitigating risk;
- Risk reporting, in setting the structure for the monthly CRO Report; and
- The ICAAP and Internal Liquidity Adequacy Assessment Process ('ILAAP') in determining how much capital and liquidity AIB UK should hold commensurate with its risk profile.

Regular and ongoing assessments of bottom-up risks and controls are also undertaken, and in particular in response to a material change in the organisation, to processes, to the internal or external environment, or to events that have occurred. This ensures that all risks are identified, evaluated and controlled in a consistent manner and determines the effectiveness of the risk management practices. For some risks, such as compliance and operational risk, the bottom-up risk assessment takes the form of a Risk & Control Assessment. Other risks, such as credit and financial risk, lend themselves to more quantitative risk measurement methodologies or periodic, thematic risk assessments. The frequency and nature of the assessments vary depending on the risk.

The material risks identified as part of the MRA, applicable during the reporting period, are set out over the following pages.

Strategic Business Model risk

The risk to the Bank's earnings as a result of not achieving the agreed strategy or approved business plan. This includes the risk of implementing an unsuitable strategy, or maintaining an obsolete business model in light of known internal and external factors.

Key Developments in 2022

2022 was the second year of the three year strategy that concluded a significant amount of change to the UK business, including the SME portfolio disposal, a refocus on targeted sectors in the Corporate Banking market and delivery of an operating model that is more agile, efficient and streamlined. The delay and embedding of some activities together with a deteriorating economic environment resulted in reduced planned growth.

Looking forward, final transformation refinement activities and building growth will support the delivery of 2023 prudent targets in an uncertain macroeconomic environment. The ongoing geopolitical tensions driving macroeconomic uncertainty, inflationary pressures together with the residual COVID-19 and Brexit challenges are expected to remain in 2023 influencing monetary policy, supply chains and affordability. All of the above could impact on the Bank in achieving its strategic objectives and therefore will continue to be closely monitored.

Mitigation

- Strategic planning is supported by an integrated, risk-focused approach to financial planning.
- The Executive and the Board closely monitor the Bank's financial performance and progress against strategic objectives.
- Sustainability is one of the Parent Group's five strategic pillars and the Parent Group has pledged to achieve carbon neutrality across all operations by 2030, using a net zero approach. The Parent Group has established a multi-year Parent Group Sustainability Programme ('GSP'), in which AIB UK was engaged, that includes integrating climate risk into the risk management framework aligned to regulatory guidance. The GSP also has responsibility to support achievement of the Parent Group's strategic ambitions for Sustainability including assisting customers to transition to a low carbon economy.

Capital Adequacy risk

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

Key Developments in 2022

The Bank maintained a strong capital position throughout 2022 with substantial buffers to regulatory requirements and internal risk appetite limits. Various stress testing activities in 2022 demonstrated the robustness of the capital position including the annual Internal Capital Adequacy Assessment Process ('ICAAP') and the quarterly capital assessments. RAS metrics were reviewed during 2022 to ensure they continued to appropriately reflect both regulatory requirements and the uncertain external environment.

Whilst focus continues on the deteriorating economic environment, the capital impact has not materialised.

We continued to develop our climate risk management capabilities across our key risk areas through our dedicated climate risk programme. We have enhanced our risk appetite and metrics, and made enhancements to our product governance process to include climate risk considerations.

Mitigation

- AIB UK has a Capital Adequacy Risk Framework, which includes regular forward-looking capital stress testing and setting of risk appetite limits.
- The UK ALCo monitors the key drivers of the capital ratios to ensure that regulatory expectations are exceeded at all times.
- The Bank maintains a Recovery Plan that sets out mitigating actions that could be taken in times of stress.

Credit risk

The risk that the Bank will incur losses as a result of a customer or counterparty being unable or unwilling to meet a credit exposure commitment (both on and off-balance sheet) that it has entered into, including residual risk, which is the risk that credit risk mitigation techniques used by the firm prove less effective than expected.

Key Developments in 2022

The credit profile remained stable, but the outlook is uncertain as the Bank has yet to see inflationary pressure materially impact credit losses. Government intervention on rising energy costs is expected to continue to mitigate some of the effect of higher costs for customers. Inflationary effects on customers continues to be assessed. Sector appetite is regularly reviewed and where appropriate adjusted for those sectors most affected by current economic and geopolitical conditions.

Following deterioration in the economic outlook reflecting the effect of higher inflation and interest rates, economic planning forecasts have been revised lower having an impact on ECL. In line with existing practice we have continued to monitor the appropriateness of model outputs and the use of model overlays, including management adjustments to reflect current market conditions which may not be fully reflected in the models. Inflation and rising interest rates have been considered by management as part of the year end ECL assessment. Where these factors are not directly reflected within the Bank's models (primarily inflation) additional management overlays have been made to reflect any underestimation of expected credit loss.

Mitigation

- As part of the Credit Risk Framework, credit policies are in place that reflect the Bank's risk appetite. Credit assessment, sector guidelines and underwriting standards ensure that risks are fully understood before they are taken onto the balance sheet. Customer performance is monitored and any deterioration is a trigger for customer engagement to ensure appropriate action is taken.
- UKRC monitors the risk profile of the credit portfolio to identify trends and to provide oversight of the management of key risks within the lending portfolio.
- Detailed reports including sector specific and COVID-19, Brexit-related and / or stagflation risks are considered regularly by the Executive and the Board Risk Committees.
- A number of sectors, considered to be incongruent with the Bank's Sustainability agenda have been identified for exclusion from future lending.
- An Environment, Social and Governance questionnaire is undertaken for high risk sectors to ensure the Bank understands these risks associated with the borrower and are incorporated into credit applications.

Liquidity & Funding risk

Liquidity Risk is the risk that the Bank will not be able to fund its assets and meet its obligations as they fall due. Funding Risk is the risk that a specific form of liquidity cannot be extended except at unacceptable cost.

Key Developments in 2022

AIB UK continues to have surplus liquidity and maintains funding levels significantly in excess of regulatory requirements.

The Bank is not currently reliant upon the wholesale markets for funding and has a mature funding book that is primarily sourced from Retail and Corporate customer deposits emanating from mainland Britain and Northern Ireland.

Mitigation

- The Liquidity Risk Framework and polices are supported by frequent monitoring of key liquidity indicators against risk appetite limits, by forward-looking liquidity stress testing and by the Liquidity Contingency Plan, which sets out management actions for a liquidity stress scenario.
- Bank funding is derived from various funding channels, which improves the ability to withstand unexpected liquidity shocks.
- The Bank maintained a heightened degree of portfolio monitoring during the year in response to the broader macroeconomic environment and to the execution of the strategic objectives.

Financial risk

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

Key Developments in 2022

AIB UK does not retain material market risk on its balance sheet, although it is sensitive from an earnings perspective to large interest rate movements and therefore Interest Rate Risk in the Banking Book ('IRRBB') is the primary Financial risk. The Bank has benefited from an increase in interest rates however this could reduce subject to continuing market volatility

Other Financial risk sub-risks relevant to AIB UK, though considered non-material, include Pension Risk, Equity Investment risk and Foreign Exchange Risk.

Mitigation

- The Market Risk Framework and related policies are in place to support the management and control of this risk, with UK market risk positions reviewed by the UK ALCo, including performance against risk appetite.
- The Bank substantially reduces exposure to IRRBB through hedging, which is conducted on AIB UK's behalf by the Parent's Treasury function.
- Parent Group-wide IBOR transition programme has overseen the transition of customers to risk-free rates.

Model risk

The potential loss that may be incurred, as a consequence of decisions that could be principally based on the output of models, due to errors in the development, implementation or use of such models.

Key Developments in 2022

AIB UK continues to build on its modelling capabilities primarily as they relate to credit risk and financial risk, to support both strategic priorities and to improve the customer experience.

The unique nature of COVID-19 meant that models sensitive to macroeconomic factors required adjustment and governed judgement. In addition, the IFRS9 models, which were fitted to low inflationary conditions and low interest rate environment are continually reviewed and use of model overlays applied where deemed appropriate.

Mitigation

- The Model Risk Framework and supporting Model Risk Policies ensure that this risk is managed throughout the model lifecycle, including ongoing model monitoring and scheduled independent validation of models and their appropriate governance. In addition, model control reviews are undertaken to challenge the accuracy of the models.
- Regular reports on model risk status are shared with the Executive and the Board Risk Committees.
- Post model adjustments are subject to frequent review and challenge at executive and board committees.
- The Parent Group will develop stress testing prototype models to assess the physical and the transitional impact of climate change on the portfolio, including the UK, through the multi-year Parent Group Sustainability Programme.

Operational risk

The risks arising from inadequate or failed internal processes, people and systems, or from external events, including Legal Risk.

Key Developments in 2022

The heightened focus and challenge on key areas of operational risk arising from adapting processes during COVID-19 continued into 2022 as AIB UK furthered its transformation agenda through implementation of strategic initiatives including changes to the operating model and ways of working.

Cyber and Information Security, IT, Third Party and Change Risk are considered to be the most material operational risk areas, with progress made to uplift cyber security capabilities in response to the evolving external threats; identification of Important Business Services and any associated vulnerabilities to be remediated to improve operational resilience; enhancements to third party management across oversight, control and processes, including services provided by the Parent; and development of an Agile model for change to be rolled out in 2023. The Bank continues to consider the impact of physical and transitional risks associated with climate change across Operational sub-risk, including pertaining to continuity and resilience, third party providers and products and propositions.

Mitigation

- The Operational Risk Management framework sets out the principles, supporting policies, roles and responsibilities, governance arrangements and processes for operational risk management across the Bank. Each sub risk has a supporting policy in place to outline the minimum control standards and core policy rules that must be adhered to.
- Additional, AIB UK has an ongoing systems and controls enhancement programme that continues to see improvements implemented across various areas and functions.
- With respect to the Bank's Sustainability agenda, the Bank endeavours to improve the ability to understand operational considerations to both physical risks associated with climate change through operational risk capital assessment and transition risks via measuring scope 3 emissions from suppliers and developing products and propositions to support customer transition to a greener economy.

Regulatory & Compliance risk

The risk of legal or regulatory sanctions, material financial loss or loss to reputation which the Bank may suffer as a result of a failure to comply with the principal laws, regulations, rules, self-regulatory organisational standards, and codes of conduct applicable to its banking activities.

Key Developments in 2022

The dynamic and evolving regulatory change landscape continues to be a key feature of the management of regulatory compliance risk for the Bank and there has been no instances of material non-compliance by AIB UK with regulatory deadlines.

The level and sophistication of fraud continues to increase across the banking industry and the Payment Service Regulator is consulting on a possible shift in liability to banks for authorised push payments. From an anti-money laundering perspective, AIB has an overall medium-low risk profile considering the geographies in which it does business and the lower risk products/services it offers.

The war in Ukraine has increased the complexity of the sanctions regimes and it is likely that this complexity will continue into 2023.

Mitigation

- AIB UK conducts ongoing horizon scanning to identify changes in regulatory and legal requirements, which includes addressing the UK regulator's key priorities related to managing the financial risks associated with climate change.
- Developments in the future relationship between the UK and EU continue to be monitored to respond appropriately to the changes in regulatory requirements and to any subsequent divergence in processes between the UK and Parent.
- The Bank maintains a comprehensive framework and policies supported by systems and controls designed to identify and prevent financial crime.
- AIB UK will continue to monitor the sanctions arena to ensure continued compliance with the regulations and will provide guidance to business when required.

Conduct risk

The risk that systemic actions or inactions by the Bank cause poor or unfair customer outcomes, or market instability

Key Developments in 2022

In 2022, the strategic initiatives impacting the Bank's customers, including exiting the GB SME market and closing a number of branches in Northern Ireland, entered their final phases. The conduct risks arising from these have been closely managed and governed through the Bank's Conduct Committee.

Additionally, AIB UK has been developing support for customers experiencing cost of living pressures, including vulnerable customers and working with industry bodies on conduct impacting consultations such as authorise push payments initiatives.

A key deliverable in 2023 will be the implementation of Consumer Duty, ensuring the delivery and monitoring of good customer outcomes across our customer journeys.

Mitigation

- All key decisions that impact customers undergo a detailed conduct risk assessment before decisions are made. Each business area is responsible for identifying conduct risks and appropriate mitigating actions. The Conduct Committee is responsible for overseeing the management of conduct risks at an organisational level and the Compliance function has oversight of adherence to the Conduct Risk Framework and Policy.
- AIB UK has an established approval process in place for all new products or propositions, or to changes to the characteristics of existing offerings, which identifies and assesses potential risks, including those associated with Sustainability, to ensure they are appropriately mitigated.

People & Culture risk

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

Key Developments in 2022

Following the right sizing agenda; implementation of the revised operating model at the end of 2021; introduction of new ways of working during 2022; and in context of the buoyant employment market; and residual COVID-19 challenges, the Bank has been working to mitigate additional risks in relation to capability, employee engagement, workloads and priorities. This has included the continued delivery on strategies to recruit, retain and develop high performing talent from investing in early careers to running Leadership Development programmes. The monitoring and management of these challenges are a key focus for the Executives to ensure support and recognition of our people, with work underway to assess skills, capabilities and knowledge to help plan for the future and the roll out of a Culture and Engagement Plan in 2023.

Mitigation

- Connection and communication with employees are key Executive priorities, particularly as the Bank navigates through transitional periods, with regular all employee events and sessions to facilitate direct feedback from staff to Executives and UK Board members.
- In line with the fifth strategic pillar of the Parent Group on Sustainable Communities, all staff receive two days a year for volunteering and the Bank launched a new €1m Community Fund in 2022 to support over 60 charities in Ireland and the UK.
- Diversity & Inclusion remains a tenet of the Bank's culture programme, including promoting and monitoring gender balance and raising awareness, such as through two Parent Group-wide campaigns in 2022 on themes of 'universal inclusion' and 'allyship and inclusive behaviours'.

Current & emerging risks and uncertainties

The Bank takes a proactive approach to identifying and assessing the potential impacts of external factors, also referred to as Risk Drivers, which could have a material influence on AIB UK's Material Risks either through affecting their impact or adjusting the likelihood of crystallisation although the frequency cannot normally be influenced through management action. The key themes of focus in 2022 are set out below.

Emerging Risk	Key Considerations	Links to Risks
MACROECONOMIC DOWNTURN AND GEOPOLITICAL INSTABILITY	Elevated uncertainties regarding the macroeconomic and geopolitical outlook. This includes the impact of the war in Ukraine and developments with regards to negotiations on the Northern Ireland Protocol. In addition it covers the crystallisation of the sharp increase in inflation, including high energy and food prices and rising interest environment despite potential recession in the UK economy, which is putting pressures on businesses and households finances.	Across all Material Risks
CLIMATE RISK	The financial, operational and/or reputational impacts arising from physical risks, transitional risk and the response to climate change. This includes the Bank being unable to quickly adapt to new regulation and/or legislation, supporting customers through transition or not meeting publically stated goals.	Across all Material Risks
COMPETITION	Inability to keep pace with competition, societal / ethical expectations or customer requirements across products, pricing, demographics and services or deliver technology advancements that result in poorer product and service offerings with an adverse reputation, financial or strategic impact.	Strategic Business Model Risk Funding & Liquidity Risk Credit Risk Conduct Risk
CYBER THREATS	Increased sophistication in cyber criminals' practices, including ransomware attacks, phishing or hacking incidents, to defraud customers and staff, diminish operational capacity of the Bank and data risk exposures.	Operational Risk Strategic Business Model Risk Conduct Risk
TALENT AND SKILLS	The loss of high-performing, high potential and highly skilled employees or inability to attract such skills within a tightened labour market.	People & Culture Risk Strategic Business Model Risk

Corporate governance report

Corporate governance arrangements and practices

The Company has developed its own governance framework appropriate to a company of our size and nature. This was developed with consideration of the UK Corporate Governance Code.

Our governance arrangements include:

- a Board of Directors of sufficient size and expertise, the majority of whom are independent Non-Executive Directors;
- a Managing Director to whom the Board has delegated responsibility for the day-to-day running of the Bank;
- a strong and diverse Leadership Team ('UKLT');
- a clear organisational structure with well defined, transparent and consistent lines of responsibility;
- a well-documented and executed delegation of authority framework;
- 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 Bank is or might be exposed;
- adequate internal control mechanisms which are consistent with and promote sound and effective risk management; and
- strong and functionally independent internal and external audit functions.

The Company has adopted the Parent Group Subsidiary Governance Framework which covers the leadership, direction and control of the Parent Group. In its drafting, this framework considers UK company law, the Prudential Regulation Authority Rulebook, the Financial Conduct Authority Handbook and the EBA Guidelines. It ensures that organisation and control arrangements are appropriate to the broader Parent Group's strategy.

Leadership and oversight

The Board

The Board is responsible for corporate governance encompassing leadership, direction and control of the Company and its subsidiaries and is accountable to the Parent for financial performance.

The Board:

- sets the Bank's risk appetite, incorporating risk limits, in consultation with the Parent;
- approves designated risk frameworks, incorporating risk strategies, policies, and principles in consultation with the Parent;
- approves specific stress testing and capital and liquidity plans under the Bank's ICAAP and ILAAP, in consultation with the Parent; and
- approves other high-level risk limits in consultation with the Parent as required by credit, capital, liquidity and market policies.

The various roles within the Board and the roles of the Executive Directors, UKLT and Company Secretary are set out below.

Board Chair

Responsible for leading the Board and ensuring its effectiveness (includes setting the agenda, ensuring that the Directors receive accurate and timely information, facilitating effective contribution by the Non-Executive Directors and ensuring proper induction and ongoing training for all). William Fall became Board Chair in March 2022 following Peter Spratt's departure.

Deputy Chair/Senior Independent Director

Available to both the shareholder and our colleagues if they have concerns which contact through the normal channels have failed to resolve, or where such contact is deemed to be inappropriate. The responsibilities of the Senior Independent Director ('SID') include Senior Manager Regime ('SMR') accountability for both Speak Up and the external whistleblowing hotline. Graham Buckland continues to serve as the Deputy Chair/SID.

Independent Non-Executive Directors

Independent Non-Executive Directors represent a key layer of oversight of the activities of the Company, bringing a viewpoint to the deliberations of the Board that is objective and independent of the activities of management and of the Company.

Executive Directors
Executive Directors have executive functions in the Company in addition to their Board duties. Their role is to propose strategies to the Board and, following Board challenge and scrutiny, to execute the agreed strategies to the highest possible standards. In 2022, Hilary Gormley and Janet McConkey were appointed as Executive Directors.

Managing Director
Responsible for the day-to-day running of the Bank, ensuring an effective organisation structure, the appointment, motivation and direction of the UKLT, and for the operational management of the Bank. In June 2022, Hilary Gormley became the Bank's Managing Director following the departure of Robert Mulhall.

UK Leadership Team
The most senior executive committee of the Bank accountable to the Managing Director. Subject to financial and risk limits set by the Board, the UKLT, under the stewardship of the Managing Director, has responsibility for the day-to-day management of the Bank's operations.

Company Secretary
Responsible for advising the Board through the Board Chair on all governance matters, ensuring that Board procedures are followed and that applicable rules and regulations are complied with. Facilitates information flows within the Board and its committees and between the UKLT and Non-Executive Directors, as well as facilitating induction and assisting with professional development as required.

Effectiveness

Independent professional advice
There is a procedure in place to enable the Directors to take independent professional advice, at the Bank's expense. The Parent holds insurance cover to protect Directors and Officers against liability arising from legal actions brought against them in the course of their duties.

Balance and independence
Responsibility has been delegated to the Nomination Committee for ensuring an appropriate balance of experience, skills and independence on the Board. Non-Executive Directors are appointed to provide strong and effective leadership and appropriate challenge to executive management. The independence of each Director is considered prior to appointment and reviewed annually thereafter. In reviewing independence the Committee considers the criteria contained in the UK Corporate Governance Code and the requirements of our regulators.

The Board has determined that the majority of Non-Executive Directors in office on 31 December 2022 were independent. Notwithstanding each of Helen Normoyle and Geraldine Casey's designations as non-independent, per the principles of the UK Corporate Governance Code, the Board is satisfied that they both exercise independence of thought and action in fulfilling their duties.

The Board supports meaningful diversity and recognises the benefits of a diverse range of perspectives and insights for good decision making and responding to stakeholder needs and is guided by the Board Diversity Policy.

Terms of appointment and time commitment
The Company maintains clear records of the terms of service of the Board Chair and the Non-Executive Directors. Non-Executive Directors are appointed for a three year term, with the possibility of renewal for a further three years. Any term beyond six years and up to nine years is subject to annual review and approval by the Board and the Group Nomination and Corporate Governance committee.

Letters of appointment, as well as dealing with terms of appointment and appointees' responsibilities, stipulate the minimum time commitment required of Directors.

Conflicts of interest
The Board adopts the AIB Group Code of Conduct and Conflicts of Interest Policy which sets out how conflicts of interest are to be evaluated, reported and managed to ensure that Directors act at all times in the best interests of the Company and its stakeholders and in accordance with SMR. Executive Directors are also subject to the AIB Group Code of Conduct and Conflicts of Interests Policy.

Directors disclose details of their other significant commitments along with a broad indication of the time absorbed by such commitments before appointment. Before accepting any additional external commitments the agreement of the Board Chair and the Company Secretary must be sought.

Performance evaluation
There is a formal process in place for the annual evaluation of the Board's performance and that of its principal committees and individual Directors. In accordance with the UK Corporate Governance Code, an external evaluation is conducted at least every three years. An internal evaluation was conducted during the year, led by the Nomination Committee and Board Chair and facilitated by the Corporate Governance team.

Induction, training and professional development

There is an induction process in place for new Directors designed to provide familiarity with the Bank and its operations. A programme of targeted and continuous professional development is also in place.

Management information pack

The Board receives a management information pack. This includes financial results for the period and business updates from the UKLT. The UKLT also provides the Board with comprehensive reports on regulatory and compliance issues including the level of customer complaints, interaction with the regulators and other compliance issues.

Board committees

The Board is assisted in the discharge of its duties by a number of committees, whose purpose it is to consider matters in greater depth than would be practicable at Board meetings, including an AIB UK Technology & Operational Resilience Advisory Committee which was established in 2020 to advise the Board on technology and operational resilience matters. The composition of the committees is reviewed annually by the Nomination Committee. Each committee operates under terms of reference approved by the Board. The minutes of all meetings of Board committees are circulated to all Directors, for information and are formally noted by the Board. In carrying out their duties, committees are entitled to take independent professional advice, at the Bank's expense, where deemed necessary or desirable.

Reports from the Board Audit Committee, the Board Risk Committee and the Nomination Committee are presented on the following pages. The duties that might otherwise be taken on by a Remuneration Committee are undertaken by the Board as a whole. Attendance of committee members only is included below.

Board and committee meeting attendance

	Board	Audit Committee	Risk Committee	Nomination Committee
Number of meetings held	*11*	*7*	*7*	*6*
Board Chair				
Peter Spratt* *(resigned 3 March 2022)*	3/3	-	-	1/1
William Fall* *(appointed Chair 3 March 2022)*	11/11	-	-	5/5
Non-Executive Directors				
Graham Buckland*	10/11	-	7/7	6/6
Geraldine Casey	5/5	-	-	-
Tracy Dunley-Owen*	9/11	7/7	7/7	-
Joe Higgins*	10/11	-	-	-
Paul Horner*	11/11	7/7	7/7	-
Shelley Malton*	10/11	-	-	6/6
Helen Normoyle	11/11	-	-	-
Roger Perkin*	10/11	7/7	7/7	-
Executive Directors				
Robert Mulhall *(resigned 24 June 2022)*	3/5	-	-	-
Hilary Gormley *(appointed 24 June 2022)*	6/6	-	-	-
Janet McConkey (Gahan) *(appointed 31 January 2022)*	9/10	-	-	-

**Independent*

Board meetings not attended by Directors were due to unavoidable conflicts. Directors had access to the meeting materials and provided feedback were relevant to the Board Chair along with apologies, in advance of the meetings.

A total of 11 Board meetings were held during 2022 (2021:11). The Non-Executive Directors also met on several occasions in the absence of the Executive Directors. The Board established a Chairman's Committee in 2021 with authority to consider proposals related to the strategic implementation programme. One Chairman's Committee meeting was held in the year.

When Directors were unable to attend meetings they received the reports and supporting documents associated with the meetings and provided feedback to the Chair of the meeting, if necessary. Attendance is carefully monitored and non-attendance is agreed with the Board Chair or relevant Committee Chair in advance of the meeting.

Board Audit Committee

7 meetings during 2022 (2021:7)

Roger Perkin *(Chair)*
Paul Horner
Tracy Dunley-Owen

Responsibilities

The committee is responsible for assisting and advising the Board in fulfilling its oversight responsibilities in relation to:

- the quality and integrity of Bank’s accounting policies, disclosure practices, financial and narrative reports;
- ensuring that the annual report and financial statements present a fair, balanced and understandable assessment of the Bank's position and prospects;
- the independence and performance of the external auditor;
- the independence and performance of the AIB UK internal audit function;
- the adequacy and performance of systems of internal control and the financial and non-financial risk management systems;
- the embedding and maintenance of a supportive culture in relation to the management of financial risk across the Company; and
- speak-up reporting and the monitoring the effectiveness of the Code of Conduct and Conflict of Interest policies.

The committee has private sessions with the Head of Internal Audit and the external auditors at least annually.

The Board has determined that the members of the committee have the collective skills and relevant experience to enable the committee to discharge its responsibilities.

Activities in 2022

The following, while not intended to be exhaustive, is a summary of the key items considered, overseen, reviewed and/or approved or recommended to the Board for approval during the year:

- the Bank’s annual financial statements prior to approval by the Board (including the Bank’s accounting policies and practices; reports on compliance and effectiveness of internal controls);
- with input from the external auditor, satisfied itself that management's estimates, judgements and disclosures were appropriate and in compliance with financial reporting standards (a detailed analysis of the significant matters is provided in the critical accounting judgements and estimates);
- the scope of the external audit, and the findings, conclusions and recommendations of the external auditor;
- the effectiveness of the system of internal controls, through regular reports from the Group Internal Audit function, the CFO, the external auditor and the Head of Financial Crime Prevention;
- the ongoing impacts of the macroeconomic and geopolitical environment on expected credit losses, grading and staging principles and implications for the application of IFRS 9 models, scenarios, weightings and alternative performance measures;
- regular updates on the Group Internal Audit plan covering findings and actions in relation to the control environment and assessment of control culture, including tracking progress to closure. A revised internal audit plan to reflect the dynamic risk environment was approved. Enhancements to the aligned assurance framework were also reviewed;
- regular updates and reports from the CFO on funding and liquidity;
- the operation of the Speak Up process, the Code of Conduct, and internal and external fraud reports;
- the relationship with the external auditor and the beginning of the transition to the new external auditor[1], including the auditors’ terms of engagement, their independence and objectivity and approved the audit plan (including methodology and risk identification processes);
- the effectiveness and performance of the external auditor and the external audit process and concluded that it was satisfied with the external auditor’s performance. It also approved the policy on non-audit fees paid to the Statutory Auditor;
- upcoming climate-related disclosure requirements.

[1] *PwC have been appointed to replace Deloitte as external auditors, effective 1 January 2023.*

Board Risk Committee

7 meetings during 2022 (2021:9)

Paul Horner *(Chair)*
Graham Buckland
Roger Perkin
Tracy Dunley-Owen

Responsibilities

The committee is responsible for assisting and advising the Board in fulfilling its oversight responsibilities in relation to:

- fostering sound risk governance across the Company's operations, encompassing implementation and maintenance of the Company's overall risk culture, risk management framework and its risk appetite, strategy and policies to ensure they are consistent with the strategy, regulatory requirements, corporate governance principles and industry best practice;
- discharging its responsibilities in ensuring that risks and impact within AIB UK Group are appropriately identified, reported, assessed, managed and controlled to include commission, receipt and consideration of reports on key strategic and operational risk issues;
- ensuring that the Company's overall actual and future risk appetite and strategy consider all types of risks, are aligned with the business strategy, objectives, corporate culture and values of the business; and,
- promoting risk awareness culture within the Company.

The Board has determined that the members of the committee have the collective skills and relevant experience to enable the committee to discharge its responsibilities.

The committee is also responsible for making recommendations for the appointment and replacement of the CRO, in conjunction with the Nomination Committee, and confirming the CRO's independence from management. The committee holds private sessions with the CRO, Chief Credit Officer and the Heads of Compliance and Financial Crime Prevention at least twice a year and the Head of Internal Audit at least annually.

Activities in 2022

The following, while not intended to be exhaustive, is a summary of the key items considered, reviewed and/or approved or recommended to the Board for approval during the year:

- reports from the CRO which provided an overview of risk profile and material risks including business, people, culture, cyber, liquidity and funding, capital adequacy, credit, operational, market, regulatory, business, conduct related mitigants and continued COVID-19 impacts;
- Risk Appetite Statement and Material Risk Assessment;
- systems and controls reports which provided an update on the programme consisting of 12 risk and control management processes and projects to achieve target state maturity;
- risk frameworks and policies relating to credit, capital management, financial, market and conduct risks;
- capital, funding and liquidity policies and planning including consideration of the AIB UK Group ICAAP and ILAAP and related stress test scenarios;
- recovery planning, business continuity management and resilience;
- periodic reporting on model oversight, providing an overview of UK credit models and a summary of performance;
- the efficacy of management oversight and control, including operational risk events and potential risks, credit risk performance and trends, material third party outsourcing, regulatory development and embeddedness of the SMR;
- review of the Modern Slavery Act statement and recommendation for Board approval;
- the Bank’s risk management infrastructure including actions taken to strengthen its risk management governance, people skills and system capabilities, and specifically a data management deep dive and periodic reports on data; and
- Money Laundering Officer's report and Financial Crime Risk Assessment alongside related periodic and incident reporting (including Russian sanctions) and policies.

Nomination Committee

7 meetings during 2022 (2021:12)

Graham Buckland *(Chair)*
Peter Spratt *(Member till 3 March 2022)*
Shelley Malton
William Fall *(Member from 3 March 2022)*

Responsibilities

The committee has oversight responsibility for:

- the composition, skills, experience, knowledge, independence, diversity and succession arrangements for the Board and for making recommendations to the Board with regard to any changes considered appropriate;
- identifying persons who, having regard to the criteria laid down by the Board, appear suitable for appointment to the Board, evaluating the suitability of such persons and making recommendations to the Board; and
- reviewing Board and Senior Executive succession planning.

The Board has determined that the members of the committee have the collective skills and relevant experience to enable the committee to discharge its responsibilities.

Activities in 2022

The following, while not intended to be exhaustive, is a summary of the key items considered, managed, overseen, reviewed and/or approved or recommended to the Board for approval during the year:

- the appointment of Janet McConkey as Executive Director, following her appointment as CFO in 2021;
- the appointment of William Fall as Board Chair, following the resignation of Peter Spratt;
- the appointment of Hilary Gormley as Managing Director and an Executive Director, following the resignation of Robert Mulhall;
- the reappointment of Graham Buckland and Paul Horner ahead of the expiry of their current terms of office in 2023;
- the search process (including the appointment of an external search firm, approving candidate profiles and conducting interviews) for a Chair of the Board Audit Committee and a Chair of the Technology and Operational Resilience Advisory Committee, which resulted in the appointment of Andrew Woosey and Anne Weatherston, as Non-Executive Directors from 1 January 2023 respectively;
- Non-Executive Director remuneration, with a proposal recommended to the AIB UK Board and subsequently progressed through the required governance processes;
- the induction plans for recently-appointed Non-Executive Directors;
- the board skills matrix and board succession plan, identifying areas of emerging challenges to inform on-going and future recruitment on a short. medium and long term basis;
- the executive succession plan;
- the membership of Board committees resulting in proposing the appointment of Joe Higgins as a member of the Board Audit Committee (effective 1 January 2023) to the Board;
- the internal board effectiveness evaluation process, reviewed the report and recommended an action plan to the Board to address areas identified for enhancement; and,
- the Board Diversity Policy. The Committee remains committed to encouraging diversity. At 31 December 2022, female representation on the Board was 54.55%, exceeding the target of 40%.

Board of Directors

			
William Fall	Graham Buckland	Geraldine Casey	Tracy Dunley-Owen
Independent Non-Executive Chair	Senior Independent Director & Deputy Chair	Non-Executive Director	Independent Non-Executive Director and Chair of the Technology & Operational Resilience Advisory Committee
Appointed to the Board			
October 2021 (Chair - March 2022)	March 2017	May 2021	April 2020
Key areas of expertise			
Investment and Retail banking, Corporate Finance, Sales and Trading	Corporate Banking	Human Resources	Risk, Audit, Financial Services, Technology and Transformation
Skills and experience			
Starting his banking career with Kleinwort Benson in 1981, William has since held a number of senior executive roles in major international financial services companies, covering corporate finance and investment banking, sales and trading, corporate and commercial banking, and retail banking, including credit cards. William is currently Chair of Ambac (UK) Ltd, the international subsidiary of the NYSE-listed insurance company, as well as Chair of Risk Committee for Citibank Global Markets Ltd, one of the largest subsidiaries of the US parent Citibank. William stepped down from Chair of MUFG Europe, the major subsidiary of Japan's largest bank, in 2021. Since 2013, William has been on the Board of the charity Historic Royal Palaces.	Graham joined Barclays in 1979 and held various roles in corporate banking before moving to the Investment Bank where he was Managing Director and Deputy Head of UK Corporate Finance and was also responsible for a portfolio of FTSE 100 clients. Before his retirement from Barclays in 2016 Graham was a Managing Director in Corporate Banking where his roles included Head of London Region and where he had responsibility for corporate clients through sector specialist industry teams and also with responsibility for Barclays' large corporate clients in the UK.	Geraldine joined the Parent Group in January 2020 from her most recent role as Director of People, Communications and IT at Tesco Ireland. Geraldine was also a member of the Executive Board of Tesco for five years prior to joining the Parent Group and has a wealth of experience working closely with internal and external stakeholders. Geraldine has led large teams through culture, process and organisational change. She is an accomplished business leader, having run Tesco's retail operations at national level before taking up her current role. Geraldine is a business graduate of University College Cork.	Tracy has over 20 years' experience in global financial services and is currently an independent non-executive director and committee chair for a portfolio of companies. Tracy has held senior executive finance roles in addition to board, audit and risk committee responsibilities at various companies within the Old Mutual plc group, Guardian Financial Services group and a division of Swiss Reinsurance Company Limited.
Key external appointments			
Ambac Assurance UK Limited Citigroup Global Markets Limited	Granard EOT Limited	None	Simplyhealth Group Limited, Sun Life Assurance Company of Canada (UK) Limited, Euroclear UK & International Limited

			
Joe Higgins	**Paul Horner**	**Shelley Malton**	**Helen Normoyle**
Independent Non-Executive Director	Independent Non-Executive Director and Chair of the Risk Committee	Independent Non-Executive Director	Non-Executive Director
Appointed to the Board			
October 2021	February 2020	December 2018	July 2021
Key areas of expertise			
Northern Ireland Retail Banking	Risk, General Management in Retail, Commercial, Investment and Private Banking	Operations, customer experience, people leadership, technology, outsourcing	Sustainability, customer and conduct, digital, stakeholder management, and culture development.
Skills and experience			
Joe is a career banker with extensive experience of the UK and Irish banking market. During his career, he has held senior roles for Bank of Scotland, HBOS and Lloyds Banking Group, including Head of Mortgages for HBOS and Chief Executive of Bank of Scotland (Ireland). He led the team that set-up Certus which successfully delivered the run-down of the old BoSI business in Ireland. Joe is a Fellow of the Institute of Chartered Accountants in Ireland. Joe is currently Chair of Choice Housing Ireland where he is also Chair of the Finance Committee; Trustee of Bowel Cancer UK and member of their Finance and Risk Committee.	Paul has held a number of senior roles with Barclays and RBS including: RBS Chief Risk Officer ('CRO') for European Consumer Finance based in Dusseldorf; CRO for ABN AMRO's EMEA Commercial and Consumer business; and subsequently for RBS' international businesses during a large restructuring programme. Paul was appointed CRO for Coutts International, based in Zurich, in 2012 and was appointed Chief Executive Officer to lead the divestment of the business in March 2015. Paul was a Non-Executive Director of Coutts International from 2018-2021. He was also Director of Risk at Ulster Bank. He left RBS in 2019. Paul was appointed Vice Chairman of Arion Bank in 2021 and is also a member of a number of the Board Committees. He is also currently Chair of the Board Risk Committee at LHV UK and a member of the Audit, Nomination and Remuneration Committees.	Shelley is currently Director of Service, Operations & Digital at Vodafone. With over 25 years of experience in the financial services industry, she has led major transformations at both Experian and Barclays, including customer experience, outsourcing, automation and operations transformations. Previous roles include Managing Director for Service at Experian and Chief Operations and Technology Officer for Barclaycard Europe. Shelley holds an Associateship of the Chartered Institute of Bankers and is a Graduate of the Chartered Institute of Personnel and Development.	Helen is a highly experienced marketeer with 30 years' experience in consumer marketing and market research across a range of sectors and geographies. A graduate of the University of Limerick, she started her career with Infratest+GfK, based in Germany. From there she moved to Motorola, where she held a range of roles including Director of Global Consumer Insights and Product Marketing and Director of Marketing. After working in broadcast and telecoms regulation at Ofcom as the Director of Market Research, Helen held Marketing Director and Chief Marketing Officer roles at the BBC, DFS, Countrywide and Boots, where she was also the Chair and Director of the Boots Charitable Trust. Helen also serves on the Board of Allied Irish Banks p.l.c as a Non-Executive Director and was appointed Senior Independent Director with effect from 1 July 2022. Helen is Co-founder and Executive Director of My Menopause Centre, and Non-Executive Director of Thame and London Ltd.
Key external appointments			
Choice Housing Ireland Limited Bowel Cancer UK Limited	Arion Bank LHV UK Limited	None	My Menopause Centre Limited Thame and London Limited

		
Roger Perkin	Hilary Gormley	Janet McConkey
Independent Non-Executive Director and Chair of Audit Committee	Executive Director and Managing Director	Executive Director and Chief Financial Officer
Appointed to the Board		
March 2017	June 2022	January 2022
Key areas of expertise		
Finance, Audit, Banking Regulation and Risk	Retail, Commercial and Corporate Banking	Finance, Strategy, Markets
Skills and experience		
A Chartered Accountant by profession, Roger joined Arthur Young (subsequently Ernst & Young) in 1969, where he became a Partner in 1979 and remained in role until retirement in 2009. Roger previously held Board positions at Nationwide Building Society, Friends Life Holdings Ltd., Evolution Group plc., TP ICAP plc and Electra Private Equity plc.	Hilary has over 30 years' experience in AIB, enjoying a wide and varied career across retail, commercial and corporate banking, holding a number of senior roles and leading teams across different geographies. Hilary has successfully completed a number of enterprise strategic priorities for the Parent Group, from leading strategic change programmes to completing large portfolio transactions. Hilary holds a Bachelor's degree in Financial Services from University College Dublin, has completed the Harvard General Management Programme, and is a member of the Institute of Bankers.	Janet has over 20 years' experience in banking. She started her career with Merrill Lynch before joining AIB where she held a number of senior finance roles including Head of Regulatory Reporting and Head of Management Reporting for the Capital Markets division. Janet was a key member of the team responsible for leading AIB's Initial Public Offering in 2017, with responsibility for financial modelling and the equity story. As Head of Debt Investor Relations, she worked on nine debt transactions before taking up her current role with AIB UK. Janet holds a Bachelor's degree in Finance & Economics, a Master's Degree in Finance, and is a fellow of the Chartered Institute of Management Accountants.
Key external appointments		
Hargreaves Lansdown plc Charities Aid Foundation	The Asthma Society of Ireland	None

Directors' report

We present the annual report and the audited financial statements for AIB Group (UK) p.l.c. and its subsidiaries for the year to 31 December 2022. A Statement of Directors' responsibilities is shown on page 56.

In addition to these pages and the biographical notes of the serving directors on the preceding pages this report is made up of the following, which are incorporated by reference:

Specifically, an indication of likely future developments is given in the Strategic report on pages 4-11 and 23-25, capital management on pages 20-21, financial instruments in notes 37 and 38 and events after the reporting date in note 44.

Results

Our profit after tax for the year ended 31 December 2022 was £115m (2021: £170m loss) and was calculated as shown in the consolidated income statement on page 67.

Dividends

We did not pay a dividend during the year ended 31 December 2022 (2021: £nil).

Political donations

The Company did not make any political donations, give any money for political purposes, nor incur any political expenditure during the year (2021: £nil).

Research and development activities

The Company does not undertake formal research and development activities although it does invest in new platforms and products in each of its business lines in the ordinary course of business. Further details can be found in the Company's consolidated financial statements.

Stakeholder engagement

For further details on the Board's engagement with key stakeholders, and how these stakeholders' interests have influenced Board discussions and principal decisions, see the Company's Section 172 statement on page 31.

Foreign branches

The Company does not operate branches outside the UK.

Directors and Company Secretary

The composition of the Board, and the names of Directors as at 31 December 2022, is set out on page 49. The following Board changes occurred, with effect from the dates shown:

- Elizabeth Hallissey resigned as the Company Secretary on 26 January 2022 and Adrian Kelly was appointed on 27 January 2022;
- Janet McConkey was appointed as an Executive Director on 31 January 2022;
- Peter Spratt resigned as Chair on 3 March 2022;
- William Fall was appointed as Chair on 3 March 2022;
- Robert Mulhall resigned as an Executive Director on 24 June 2022;
- Hilary Gormley was appointed as an Executive Director on 24 June 2022;
- Anne Weatherston was appointed as a Non-Executive Director on 1 January 2023; and
- Andrew Woosey was appointed as a Non-Executive Director on 1 January 2023.

No significant contracts existed between the Bank, or its subsidiaries, and any Director at any time during the financial year.

Independent advice

The Directors have access to the advice of the Company Secretary and may take independent professional advice at the Company’s expense.

Corporate governance statement

The Company has in place its own governance arrangements which are deemed to be appropriate for a company of its size and nature. Further details on our governance arrangements can be found on page 43.

We consider the 2022 annual financial report to be fair, balanced and understandable and to give the necessary information to allow our shareholders to assess the Bank’s performance, business models and strategy.

Going concern

We have considered whether a going concern basis for preparing the financial statements for the year ended 31 December 2022 is appropriate and decided that it is. The reasons for this decision are set out in the 'Going Concern' section of note 1.3.

Viability statement

We have considered the viability of AIB UK Group, taking into account the current position and the principal risks that it faces. We performed our assessment over the next three years given it is the period covered by the rolling strategic plan, which is refreshed annually.

We have also considered the current financial performance, funding, liquidity and capital management of AIB UK Group, as set out in the Financial Review on page 11, and the governance and oversight through which AIB UK manages and seeks where possible to reduce its risks as described on pages 35 to 37. Finally, we performed a detailed review of all principal risks facing AIB UK Group as part of the MRA process, including those that would threaten the business operations, governance and internal control systems. The details of this are on pages 37 to 42.

While we acknowledge that ongoing operations of AIB UK Group are reliant on support from the Parent Group as a service provider and the additional reliance on funding from the Parent Group forecast from 2025 under the new strategy for AIB UK, we believe, based on our assessment, that taking into account AIB UK Group’s current position, and subject to the identified principal risks, AIB UK Group will be able to continue in operation and meet its liabilities as they fall due over the three year period.

We have satisfied ourselves that we have the evidence necessary to support this statement, in terms of the effectiveness of the internal control environment in place to mitigate risk.

Internal controls

Board governance and controls
We are responsible for the Bank’s system of internal controls and for reviewing its effectiveness. A strong system of internal controls contributes to safeguarding the Bank’s assets. However, this system is designed to manage, rather than remove, the risk of failure to achieve business objectives and only provides reasonable and not complete protection against material misstatement or loss.

Within the Bank, there is a detailed system of internal controls that includes:

- a clear management structure, with appropriate levels of responsibility, authority and accountability;
- annual planning, budgeting, business review and financial reporting, with clear control policies and procedures for all areas of the business, including those related to operational and credit risks;
- regular independent review and reporting to the UKLT and to the Board Audit and Risk Committees on the various parts of this control, through the Risk Management, Finance, Internal Audit and Compliance functions;
- a self-assessed risk identification process across all business units and an agreed sign-off process to certify compliance with internal control procedures; and
- compliance with local laws and the regulations and guidelines set out by our regulators, the PRA and the FCA.

We receive reports that give us a view of the significant risks, including credit and operational risks and the effectiveness of our system of internal controls in managing these risks. We also receive independent reports from our Group Internal Audit function on the effectiveness of internal controls and look for confirmation from management that any significant control failings or weaknesses identified by the Group Internal Audit function or other reviews have been fixed.

Code of conduct

Our Code of conduct (‘Code’), which covers all our colleagues, sets out the standard of behaviour expected from all our people, and guides management on how to make sure business and support activities are carried out to the highest standards of behaviour. This Code is supported by policies, practices and training which are designed to make sure that all our colleagues understand and follow it. The Code is reviewed annually.

The Code is also supported by our ‘Speak Up’ policy and whistleblowing arrangements which encourage our colleagues to raise any concerns of wrong-doing in a number of ways including a confidential external help-line. Colleagues are assured that if they raise a concern in good faith, we will not tolerate any victimisation or unfair treatment as a result.

Supervision and regulation

Supervision

The Bank is incorporated in Northern Ireland and is authorised by the PRA and regulated by the FCA and the PRA under the Financial Services and Markets Act 2000 to carry on a wide range of regulated activities (including accepting deposits). We carry on business under the trading names ‘Allied Irish Bank (GB)’ and ‘Allied Irish Bank (GB) Savings Direct’ in Great Britain and 'AIB (NI)' in Northern Ireland (previously 'First Trust Bank' in Northern Ireland).

The Bank has regular and open communication with the PRA, FCA, ECB and the Competition and Markets Authority on aspects of the firm’s activities, including the changes brought about by the strategy announced in 2021.

The Bank previously had statutory power to issue banknotes as local currency in Northern Ireland (it did this under the name of ‘First Trust Bank'). In February 2019 the Bank announced its intention to cease doing so. First Trust Bank banknotes ceased to be legal currency as scheduled on 30 June 2022. The Bank is also subject to the provisions of the Bank Charter Act 1844, the Bankers (Northern Ireland) Acts 1845 and 1928, the Currency and Bank Notes Act 1928, the Allied Irish Banks Act 1981, the Allied Irish Banks Act 1993 and the Allied Irish Banks Act 1996.

We subscribe to the Lending Code of the Lending Standards Board, which is a self-regulatory code setting minimum standards of good practice in relation to lending, including loans, credit cards and current account overdrafts. We seek to monitor actively our regulatory and compliance obligations and seek to put in place quickly appropriate steps for any regulatory change.

Legislative changes

During 2022, the UK has continued to remain aligned to existing EU regulation including via retained EU law in the UK. However the announcement during 2022 of the proposed introduction of the Retained EU Law (Revocation and Reform) Bill, known as the Brexit Freedoms Bill, is likely to result in changes to retained EU law and its operation in the UK. The Bank will continue to monitor these developments and react on the implementation of any required changes.

Regulatory changes to enhance competition

Following the Competition and Markets Authority Retail Banking Market Investigation Order, we are one of nine banks charged with designing and implementing an Open Banking Framework for the UK though the Open Banking Implementation Entity. The Open Banking infrastructure has been built and Strong Customer Authentication ('SCA') introduced to online banking to better protect customers from fraud. SCA was extended to e-commerce transactions in the UK during the course of 2022.

Financial crime prevention

The regulatory focus on the prevention of financial crime remains strong with several banks receiving enforcement from the FCA in relation to failures in anti-money-laundering controls. The war in Ukraine has put a real focus on Sanctions particularly in connection with Russia and controls have been enhanced to ensure continued compliance. The level and sophistication of fraud continues to increase, particularly with the increasing use of digital products and the increased execution of payments online. 2023 will see the introduction of Confirmation of Payee to better protect customers from fraud. The Bank is regularly reviewing its risk assessments and enhancing controls to detect, prevent and report financial crime.

Conduct risk

The Bank is exposed to many forms of conduct risk, and needs to be able to demonstrate how it delivers fair treatment and transparency to, and upholds the best interests of, customers. The Bank undertakes conduct risk assessments as part of its key decision making process to ensure that risks impacting the customer are mitigated in as far as is possible. The Bank has a Conduct Committee that assesses risks posed to customers as a result of its activities and agrees the mitigating actions that are required to address these.

The FCA issued final guidance in July 2022 in relation to the Consumer Duty. The Consumer Duty takes an outcomes-based approach and sets higher expectations for the standard of care given to customers. Through the introduction of a new Principle requiring firms to act to deliver good outcomes for retail customers, underpinned by three cross-cutting rules and four outcomes, the Consumer Duty is aimed at ensuring that consumers receive communications they can understand, products and services that meet their needs and offer fair value, and can avail of the support they need, when they need it.

The Board approved an implementation plan in October 2022 and exercises oversight as Management continue to work towards the implementation date.

Streamlined energy and carbon reporting

We have provided details on the energy consumption and related carbon emissions which result directly from the operations in AIB UK in the Sustainability section, from page 25. This is in compliance with the requirements of the Large & Medium-Sized Companies and Groups (Accounts & Reports) Regulations 2008.

Colleague engagement

We have a dedicated internal communications function to ensure our colleagues have the information and support they need to contribute to achieving the Bank’s vision and strategy. Our internal communications on financial and economic factors are transparent and deliver specific communications around our financial performance and results. They also address topical, macroeconomic events and how these might impact our performance. Specific updates have also been provided throughout the year on the strategic implementation, voluntary severance programme and the re-organisation of the business. This also included Q&A sessions with the UK Leadership Team.

We have constructive working relations with our colleagues' representative bodies, who are consulted regularly on a wide range of matters affecting their current and future interests.

The Board and Risk Committee receive periodic reports on talent, culture, wellbeing and inclusion. Directors have also engaged directly with our colleagues through a number of engagement events, details of which can be found in the Section 172 report, from page 31.

Applications for employment by disabled persons are always given full consideration by AIB UK. In the event of colleagues becoming disabled every effort is made to ensure their employment with the Bank continues and that appropriate training/support is arranged. It is the policy of AIB UK that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other colleagues.

Directors’ indemnities

The Company has granted indemnities to each of its Directors and made qualifying third party indemnity provisions (as defined by Section 234 of the Companies Act 2006) for our Directors. These were in place at 31 December 2022.

Independent auditor and audit information

Deloitte LLP, Statutory Auditors, were appointed as our auditor and those of our Parent on 5 July 2013. Deloitte were re-appointed as auditor of the Company at the last AGM held on 12 May 2022.

Having served as AIB UK's statutory auditor for the maximum legally permitted unbroken tenure in office of ten years, Deloitte LLP intend to resign upon conclusion of the 2022 financial year end process.

A formal external audit tender process was completed by the AIB Group plc Audit Committee (with representation from AIB UK) on behalf of the AIB Group plc Board and subsidiary entities, the result of which was that PricewaterhouseCoopers ('PwC') were selected as the proposed new statutory auditor in respect of the financial year ending 31 December 2023 and this was subsequently approved by the Board.

Each of the directors at the date of approval of this annual report confirm that:

- so far as they are aware, there is no relevant audit information of which the Company’s auditor is unaware; and
- they have taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to make sure 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 418 of the Companies Act 2006.

Approved and authorised for issue by the Board of Directors

Hilary Gormley

Hilary Gormley
Managing Director

6 March 2023

Statement of Directors' responsibilities

The following statement is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditor in relation to the financial statements. It should be read in conjunction with the statement of Auditor's responsibilities set out in their Audit Report.

The Directors are responsible for preparing the Annual Financial Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under that law the Directors have elected to prepare both the group and parent company financial statements in accordance with IFRSs as adopted by the UK. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group and parent company for that period.

In preparing these 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 UK; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Responsibility statement

Each of the Directors whose names and functions are listed on pages 49 to 51 confirm to the best of their knowledge that:
- the financial statements, prepared in accordance with IFRSs as adopted by the UK, give a true and fair view of the assets, liabilities, financial position and profit of the parent company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the parent company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Financial Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the group and parent company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 6 March 2023 and is signed on its behalf by:

Hilary Gormley
Managing Director

6 March 2023

Independent Auditor's report

Independent auditor's report to the members of AIB Group (UK) p.l.c.

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of AIB Group (UK) p.l.c. (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB');
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated and parent company statements of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company statements of cash flows; and
- the related notes 1 to 45.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and parent company for the year are disclosed in note 11 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's report

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: – Loan loss provisioning; and – The appropriate measurement of the deferred tax asset. These matters are consistent with the prior year.
Materiality	The materiality that we used for the group financial statements was £9.1m (2021: £9.9m), which was determined on the basis of 0.55% of shareholder’s equity (2021: 0.55%).
Scoping	Our audit was scoped by obtaining an understanding of the group and its environment, key processes and controls over financial reporting, and assessing risks of material misstatement at a group level. The group and the parent company are treated by management as if it were a single aggregated set of financial information that was audited directly by the group engagement team.
Significant changes in our approach	There have been no significant changes in our audit approach in 2022.

4. Conclusions relating to going concern

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

Our evaluation of the Directors’ assessment of the group’s and parent company’s ability to continue to adopt the going concern basis of accounting included:

- obtaining and reading management’s going concern assessment in order to understand the basis for key assumptions and judgements made by management;
- considering management’s financial projections and evaluating key assumptions and their projected impact on capital and liquidity, with specific consideration of the implementation of the group’s new strategy and the associated funding plan;
- with the involvement of our regulatory specialists, reading the most recent ICAAP and ILAAP submissions, considering management’s capital and liquidity projections, evaluating the results of management’s severe but plausible stress scenarios and considering whether the mitigating actions that could be taken by management in a severe but plausible stress scenario were reasonable;
- reading correspondence with regulators to understand the group’s capital and liquidity requirements;
- assessing the historical accuracy of forecasts prepared by management; and
- considering the appropriateness of the disclosures made in the financial statements.

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

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

5. 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 period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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.

5.1 Loan loss provisioning

Key audit matter description

As detailed in the summary of critical accounting judgements and estimates in note 2 and the credit risk disclosures in note 21, the identification of “criticised”, “vulnerable” and credit impaired loans, and the estimation of expected credit losses ('ECL') in accordance with IFRS 9 is inherently uncertain and requires significant management judgement. As a result of the ongoing high level of uncertainty in the macroeconomic environment, the increased risk of the associated judgements and level of estimation uncertainty has remained elevated in the current year. We have determined that there is a risk of error in, or manipulation of, this balance.

At 31 December 2022, the group reported £197m (2021: £201m) of ECL on total gross loans to customers of £5,915m (2021: £6,399m) resulting in an ECL coverage of 3.33% (2021: 3.14%). The most significant judgements in respect of the ECL include:

- the identification of significant increases in credit risk ('SICR') for the Corporate lending portfolio;
- the valuation of collateral for Stage 1 and 2 Corporate connections with individually material exposures, as well as the valuation of collateral and other significant cash flows used in the estimation of ECL for material, individually assessed, Stage 3 Corporate loans; and
- the completeness of post-model adjustments that are required to mitigate known model limitations, including those identified through the independent model validation process.

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

We obtained an understanding of the relevant controls over ECL including:

- controls that provide assurance over the identification of “criticised”, “vulnerable” and credit impaired loans and the valuation of collateral used in the estimation of ECL for Corporate connections;
- controls over the on-going monitoring of ECL model performance, including independent model validation; and
- the review and approval of model outputs and any post model adjustments that were subsequently applied to the modelled provision.

In addition, we performed the following substantive procedures in relation to the significant judgements:

- we assessed a sample of Stage 1 loans for indications of a SICR. The triggers that formed part of our assessment included those from internal group policies and the non-exhaustive factors as set out in IFRS 9;
- for a sample of individually material loans in Stages 1 and 2, we assessed the existence and rights of the collateral held and assessed the accuracy of the valuation;
- for a sample of individually assessed Stage 3 loans, we reviewed and challenged the value and timing of the assumed cash flows and any associated collateral valuations used in determining the ECL, including assessment of the accuracy of historic ECL estimations compared to actual losses; and
- with involvement of Deloitte’s credit specialists, we considered and challenged the rationale for post-model adjustments in relation to known model limitations by evaluating the methodology and key assumptions used by management to estimate the post-model adjustments and tested the underlying data.

In addition to detailed testing of the post model adjustments, we performed a “stand back” test to assess the appropriateness of the total ECL after the application of post model adjustments.

Key observations

From our testing of the loan loss provision balance we are satisfied that the approach is compliant with IFRS 9 and, whilst we observed both conservative and optimistic elements, we concluded that the ECL balance is reasonable.

5.2 Appropriate measurement of the deferred tax asset

Key audit matter description	As detailed in the summary of critical accounting judgements and estimates in note 2 and the deferred tax disclosure in note 27, management have recognised a deferred tax asset ('DTA') of £241m (2021: £148m), predominantly as a result of significant unutilised tax losses suffered between 2009 and 2012. Management use a three-year detailed forecast from the business plan for the estimation of the DTA reflecting increased uncertainty in forecasting growth over the medium term given the early stage of implementation of the new strategy. The forecast 2025 profits are then extrapolated for the remaining recoverable period with no growth. Given the inherent uncertainty in the accuracy of forecasting future results, particularly given continued economic uncertainty, significant management judgement is required to determine whether future taxable profits are probable (“more likely than not”) to utilise the carried forward tax losses. Additionally, significant estimation is required in determining the level of future profitability, with consideration of historical operating results, economic trends, the ability of management to execute the strategy and achieve expected profit growth and the possibility of idiosyncratic or market-wide events that significantly reduce, or eliminate, profits for a period of time. Furthermore, as a result of current tax legislation, the level of profits that banks can offset each year against the majority of brought forward losses is restricted to 25 per cent and, as a result, it would take 64 years to utilise these losses in full. IAS 12 states that management should recognise a DTA for as many years as they believe they can reliably estimate future taxable profits. When assessing how many years future taxable profits can be reliably estimated, management have considered expected future activities, specifically, the AIB UK Group’s new strategy and the Parent Group’s affirmation of the UK operations as a strategic priority. Consequently, given the uncertainties in forecasting over an extended period of time, management have determined that fifteen years is a reasonable estimate of how many years they can sufficiently reliably forecast profits and have restricted recognition to the amount projected over this period (“recognition period”). There is a risk of material misstatement that the group will not generate sufficient taxable profits to utilise the tax relief provided by the deferred tax asset. This is focused on two key judgements: – the ability to generate future profits through the continued growth of profit generating assets (predominantly the loan book); and – the appropriateness of the 15-year recognition period based on these profit projections.

Independent Auditor's report

How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant controls over the production, and review, of the deferred tax asset calculation, including the projection of balance sheet (loan book) growth and taxable profits included in the business plan, the determination of growth rates used to extrapolate profits beyond the business plan and the determination of the recognition period. With consideration to the underlying economic assumptions, we assessed whether forecast taxable profits were appropriate by: – assessing governance over the production of the business plan by obtaining an understanding of relevant controls in the forecasting process; – assessing the historical accuracy of management's forecasts in the business plan by comparing forecasts from 2015 onwards to actual results; – evaluating the achievability of management's balance sheet (loan book) growth projections within their detailed business plan; and – challenging the reasonableness of forecasts beyond the business plan in light of the new strategy and current economic environment, by comparing the growth rates used by management to economic growth rates and historic operating profits. We assessed the evidence provided by management to support the 15-year recognition period, considering the following areas: – expected future activities, with consideration of the ongoing implementation of the Bank's new UK strategy and the Parent Group's recent affirmation of the UK operations as a strategic priority; and – the increased difficulty in forecasting in the continued uncertain economic environment.
Key observations	Based on the results of our testing, we are satisfied that the judgements that management have taken in respect of the deferred tax asset are reasonable. Additionally, we are satisfied with management's conclusion to use a three-year detailed forecast from the business plan for the estimation of the DTA reflecting increased uncertainty in forecasting growth over the medium term given the early stage of implementation of the new strategy.

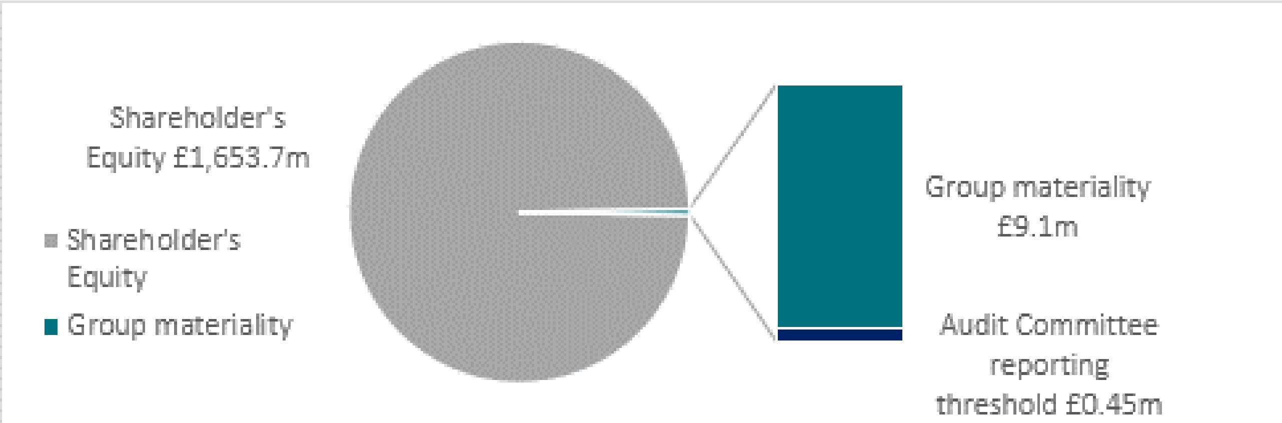
6. Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person 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.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£9.1m (2021: £9.9m)	£9.0m (2021: £9.8m)
Basis for determining materiality	0.55% of Shareholders' Equity (2021: 0.55%)	3% of Shareholders' Equity (2021: 3%) The parent company materiality equates to 3% of Shareholders' Equity, which is capped at 99% of group materiality (2021: 99%).
Rationale for the benchmark applied	We recognise that profit is an important measure in the financial statements. However, due to the fluctuation in this measure in recent years, we believe that the Shareholders' Equity balance currently remains a more appropriate benchmark as: – it provides a stable basis for materiality; – the level of the group's operations is directly linked to capital resources held; and – it represents one of the principal benchmarks used by investors, regulators and other stakeholders.	



6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	65% (2021: 65%) of group materiality	65% (2021: 65%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality we considered our risk assessment, including the quality of the control environment and the business processes over which we were able to rely on controls and our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.	

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £450,000 (2021: £500,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1 Identification and scoping of components

Our audit was scoped by obtaining an understanding of the group and its environment, key processes and controls over financial reporting, and assessing risks of material misstatement at a group level.

The group maintains a single aggregated set of accounting records for all of its operations and we therefore audited the entire group as a single component, covering 100% of net assets, revenue and profit before tax. For the audit of the parent company, management deconsolidated the group financial information to identify the relevant parent company-only balances and transactions such as intercompany balances. These balances and transactions were audited by the group engagement team to assess whether they had been accurately deconsolidated from the group financial information for the purpose of presenting separate company-only financial statements alongside the group financial statements.

7.2 Our consideration of the control environment

Our group audit was scoped by obtaining an understanding of the group and its control environment and assessing the risks of material misstatement in the group's financial statements.

Based on our understanding and testing of the group's control environment, including the involvement of IT specialists to assess the associated IT controls, we were able to rely on controls, including automated controls, in the following areas:

– Loans and advances to customers, excluding expected credit losses;
– Customer accounts; and
– Interest income and expense (excluding the effective interest rate adjustment).

7.3 Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the group's business and its financial statements. The group continues to develop its assessment of and response to the potential impacts of environmental, social and governance ('ESG') related risks, including climate change, as outlined in the Sustainability report on page 25.

We held discussions with management and obtained an updated understanding of the progress that has been made around the identification of climate-related risks, the consideration of mitigating actions and the impact on the group's financial statements, which management concluded was not material, as set out in note 1.3 to the financial statements.

We also obtained and reviewed management's risk assessment of the potential impact of climate change on the group's account balances and classes of transactions, in particular loan loss provisioning, and assessed whether the conclusions reached by management were reasonable.

We read the climate-related disclosures included in the annual report and considered whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

7.4 Working with other auditors

Where processes relevant to the group audit are performed centrally in Dublin by Allied Irish Banks p.l.c. (the 'Irish Parent'), these have been audited by Deloitte Ireland under the supervision of the group engagement team via regular virtual meetings and visits to Dublin to review Deloitte Ireland's audit file.

8. Other information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

9. Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and 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's and the parent 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 or the parent company or to cease operations, or have no realistic alternative but to do so.

10. 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 (UK) 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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

– the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
– results of our enquiries of directors, management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
– any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
    - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
– the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, pensions, IT, economic, regulatory and credit specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in loan loss provisioning. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included relevant provisions of the UK Companies Act, banking legislation, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the group's regulatory capital, liquidity and conduct requirements.

11.2 Audit response to risks identified

As a result of performing the above, we identified loan loss provisioning as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

– reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
– enquiring of directors, management, the Audit Committee and in-house and external legal counsel concerning actual and potential litigation and claims;
– performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
– reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Prudential Regulation Authority and the Financial Conduct Authority; and
– in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

– the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
– the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

13. Matters on which we are required to report by exception

13.1 Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

– we have not received all the information and explanations we require for our audit; or
– adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
– the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2 Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14. Other matters

14.1 Auditor tenure

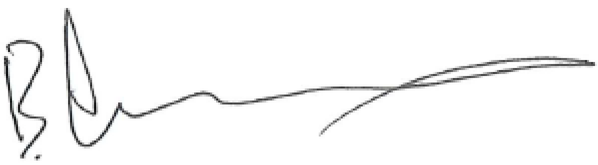
Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 5 July 2013 to audit the financial statements for the year ending 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 10 years, covering the years ending 31 December 2013 to 31 December 2022.

14.2 Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

15. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.



Ben Jackson, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom.

Date: 6 March 2023

Consolidated income statement

for the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Interest income	3	**280**	218
Interest expense	4	**(27)**	(20)
Net interest income		**253**	198
Fee and commission income	5	**48**	45
Fee and commission expense	5	**(4)**	(4)
Net trading and other financial income	6	**8**	7
Net gain on other financial assets measured at FVTPL	7	**10**	6
Net loss on derecognition of financial assets measured at amortised cost	8	**(16)**	(8)
Other operating income/(expense)	9	**2**	(3)
Other income		**48**	43
Total operating income		**301**	241
Operating expenses	10	**(109)**	(141)
Impairment and amortisation of intangible assets	24	**(8)**	(8)
Impairment and depreciation of property, plant and equipment	25	**(5)**	(11)
Total operating expenses		**(122)**	(160)
Operating profit before impairment losses		**179**	81
Net credit impairment (charge)/writeback	12	**(41)**	8
Profit before taxation		**138**	89
Income tax (charge)/credit	13	**(23)**	81
Profit for the year after taxation attributable to equity holders of AIB UK		**115**	170

The Company reported a profit for the financial year ended 31 December 2022 of £115m (2021: £172m).

All results are derived from continuing operations.

The notes on pages 72 to 161 form an integral part of these financial statements.

Statement of comprehensive income

for the year ended 31 December 2022

	Note	AIB UK Group		AIB UK	
		2022	2021	**2022**	2021
		£m	£m	**£m**	£m
Profit for the year		**115**	170	**115**	172
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit asset/(liability), net of tax	35	**(68)**	5	**(68)**	5
Total items that will not be reclassified subsequently to profit or loss		**(68)**	5	**(68)**	5
Items that will be reclassified subsequently to profit or loss when specific conditions are met:					
Net change in cash flow hedges, net of tax	35	**(185)**	(57)	**(185)**	(57)
Total items that will be reclassified subsequently to profit or loss when specific conditions are met		**(185)**	(57)	**(185)**	(57)
Other comprehensive income for the year, net of tax		**(253)**	(52)	**(253)**	(52)
Total comprehensive income for the year		**(138)**	118	**(138)**	120
Attributable to:					
- Equity holders of AIB UK		**(138)**	118	**(138)**	120

The notes on pages 72 to 161 form an integral part of these financial statements.

Statement of financial position

as at 31 December 2022

		AIB UK Group		AIB UK	
		2022	2021	**2022**	2021
	Notes	**£m**	£m	**£m**	£m
Assets					
Cash and balances at central banks		**3,924**	5,306	**3,924**	5,306
Derivative financial instruments	16	**220**	91	**220**	91
Loans and advances to banks	17	**555**	637	**555**	637
Loans and advances to customers	18	**5,718**	6,198	**5,718**	6,198
Investment securities	22	**50**	40	**50**	40
Investments in group undertakings	23	**—**	—	**1**	1
Intangible assets	24	**15**	21	**15**	21
Property, plant and equipment	25	**27**	31	**27**	31
Other assets	26	**55**	17	**55**	17
Current taxation		**6**	28	**6**	28
Deferred tax assets	27	**241**	148	**241**	148
Prepayments and accrued income		**7**	10	**7**	10
Retirement benefit assets	28	**57**	161	**57**	161
Total assets		**10,875**	12,688	**10,876**	12,689
Liabilities					
Deposits by central banks and banks	29	**390**	434	**390**	434
Customer accounts	30	**8,204**	10,088	**8,213**	10,098
Derivative financial instruments	16	**506**	128	**506**	128
Lease liabilities	31	**8**	17	**8**	17
Deferred tax liabilities	27	**2**	13	**2**	13
Other liabilities	32	**80**	174	**80**	174
Accruals and deferred income		**11**	8	**11**	8
Provisions for liabilities and commitments	33	**20**	34	**20**	33
Total liabilities		**9,221**	10,896	**9,230**	10,905
Shareholders' equity					
Share capital	34	**2,384**	2,384	**2,384**	2,384
Reserves		**(730)**	(592)	**(738)**	(600)
Total shareholders' equity		**1,654**	1,792	**1,646**	1,784
Total liabilities and equity		**10,875**	12,688	**10,876**	12,689

The notes on pages 72 to 161 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 6 March 2023. They were signed on its behalf by:

Hilary Gormley
Managing Director
Company registration number: NI018800

Statement of changes in equity

for the year ended 31 December 2022

AIB UK Group	Notes	Share capital £m	Other reserves £m	Cash flow hedging reserve £m	Revenue reserves £m	Total equity £m
		Attributable to equity holders of AIB UK				
At 1 January 2022		**2,384**	**2**	**(24)**	**(570)**	**1,792**
Total comprehensive income for the year						
Profit for the year		**—**	**—**	**—**	**115**	**115**
Other comprehensive income, net of tax	35	**—**	**—**	**(185)**	**(68)**	**(253)**
Total comprehensive income for the year		**—**	**—**	**(185)**	**47**	**(138)**
Other movements		**—**	**(1)**	**—**	**1**	**—**
At 31 December 2022		**2,384**	**1**	**(209)**	**(522)**	**1,654**
At 1 January 2021		2,384	2	33	(745)	1,674
Total comprehensive income for the year						
Profit for the year		—	—	—	170	170
Other comprehensive income, net of tax	35	—	—	(57)	5	(52)
Total comprehensive income for the year		—	—	(57)	175	118
At 31 December 2021		2,384	2	(24)	(570)	1,792

AIB UK	Notes	Share capital £m	Other reserves £m	Cash flow hedging reserve £m	Revenue reserves £m	Total equity £m
		Attributable to equity holders of AIB UK				
At 1 January 2022		**2,384**	**1**	**(24)**	**(577)**	**1,784**
Total comprehensive income for the year						
Profit for the year		**—**	**—**	**—**	**115**	**115**
Other comprehensive income, net of tax	35	**—**	**—**	**(185)**	**(68)**	**(253)**
Total comprehensive income for the year		**—**	**—**	**(185)**	**47**	**(138)**
At 31 December 2022		**2,384**	**1**	**(209)**	**(530)**	**1,646**
At 1 January 2021		2,384	1	33	(754)	1,664
Total comprehensive income for the year						
Profit for the year		—	—	—	172	172
Other comprehensive income, net of tax	35	—	—	(57)	5	(52)
Total comprehensive income for the year		—	—	(57)	177	120
At 31 December 2021		2,384	1	(24)	(577)	1,784

The notes on pages 72 to 161 form an integral part of these financial statements.

Statement of cash flows

for the year ended 31 December 2022

		AIB UK Group		AIB UK	
		2022	2021	**2022**	2021
	Notes	**£m**	£m	**£m**	£m
Cash flows from operating activities					
Profit before taxation for the year		**138**	89	**139**	91
Adjustments for:					
Non-cash items	40	**67**	27	**67**	24
Net cash inflow from operating activities		**205**	116	**206**	115
Change in loans and advances to banks		**142**	(73)	**142**	(73)
Change in loans and advances to customers		**419**	679	**419**	679
Change in deposits by banks		**(18)**	(32)	**(18)**	(32)
Change in customer accounts	30	**(1,884)**	109	**(1,885)**	107
Change in derivative financial instruments	16	**(3)**	2	**(3)**	2
Change in notes in circulation	32	**(44)**	(50)	**(44)**	(50)
Change in other assets		**(37)**	1	**(38)**	1
Change in other liabilities		**(64)**	1	**(64)**	1
Net cash (outflow)/inflow from operating assets and liabilities		**(1,489)**	637	**(1,491)**	635
Net cash (outflow)/inflow from operating activities before taxation		**(1,284)**	753	**(1,285)**	750
Taxation refund/(paid)		**2**	(3)	**2**	(3)
Net cash (outflow)/inflow from operating activities		**(1,282)**	750	**(1,283)**	747
Cash flows from investing activities					
Additions to property, plant and equipment		**(4)**	(7)	**(4)**	(7)
Proceeds from disposals of property, plant and equipment		**1**	—	**1**	—
Additions to intangible assets		**(2)**	(4)	**(2)**	(4)
Dividends received from subsidiary undertakings	23	**—**	—	**1**	3
Net cash outflow from investing activities		**(5)**	(11)	**(4)**	(8)
Cash flows from financing activities					
Repayment of secondary non-preferential debt	33	**—**	(45)	**—**	(45)
Repayment of lease liabilities		**(9)**	(3)	**(9)**	(3)
Net cash outflow from financing activities		**(9)**	(48)	**(9)**	(48)
Change in cash and cash equivalents		**(1,296)**	691	**(1,296)**	691
Opening cash and cash equivalents		**5,353**	4,662	**5,353**	4,662
Closing cash and cash equivalents	40	**4,057**	5,353	**4,057**	5,353

The notes on pages 72 to 161 form an integral part of these financial statements.

Notes to the financial statements

Notes to the financial statements

1. Accounting policies

The significant accounting policies that AIB UK Group applied in the preparation of the financial statements are set out in this section.

1.1 Reporting entity

AIB Group (UK) p.l.c. (company number NI018800) is a public company limited by shares incorporated in the United Kingdom with its registered office at 92 Ann Street, Belfast, BT1 3HH, Northern Ireland. The consolidated financial statements of AIB UK as at and for the year ended 31 December 2022 include AIB UK and its subsidiary undertakings, collectively referred to as 'AIB UK Group'. AIB UK Group provides banking and financial services to personal, commercial and corporate customers and has operations throughout the United Kingdom.

The Board of Directors approved these financial statements for issue on 6 March 2023.

Reference made to 'AIB plc' or 'the Parent', relate to Allied Irish Banks, p.l.c., a parent undertaking registered in the Republic of Ireland. AIB Group plc is the ultimate parent company of AIB plc and of AIB UK Group (see note 45). AIB Group plc is registered in the Republic of Ireland (registered number 594283) with its headquarters and registered office at 10 Molesworth Street, Dublin 2, Republic of Ireland. Telephone +353(0) 16600311. Reference made to 'the Parent Group' relates to AIB plc and its subsidiary undertakings, which includes AIB UK Group.

1.2 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Accounting Standards ('IASs') and International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB') and IFRSs as adopted by the UK and applicable for the year ended 31 December 2022. The accounting policies have been consistently applied by the AIB UK Group entities and are consistent with the previous year, unless otherwise described.

1.3 Basis of preparation

Functional and presentation currency

The financial statements are presented in pounds sterling, which is the functional currency of AIB UK Group and all of its subsidiaries. Except as otherwise indicated, financial information presented in sterling has been 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 and financial instruments at fair value through profit or loss.

The financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income, the company statement of comprehensive income, the consolidated statement of financial position, the company statement of financial position, the consolidated statement of changes in equity, the company statement of changes in equity, the consolidated statement of cash flows, and the company statement of cash flows, together with the related notes.

Change in presentation of certain items in the primary statements

AIB UK Group has changed the presentation of certain line items in the consolidated and company statement of financial position and the consolidated income statement to a more appropriate presentation as those line items are no longer material. 'Items in course of collection' is reported within 'other assets' in 2022. The comparative for 2021 of £3m has been restated accordingly. In the consolidated income statement 'loss on disposal of property', previously presented outside of operating profit, is now reported within 'other operating income' in 2022. The comparative for 2021 of a loss of £3 million has been restated accordingly.

Use of judgements and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management's judgement may involve making estimates concerning the likelihood of future events, the actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

The judgements that have a significant effect on the financial statements and the estimates with a significant risk of material adjustment in the next year are in the areas of expected credit losses on financial assets; the recoverability of deferred tax; retirement benefit obligations; provisions for liabilities and commitments; and the fair value of investment securities.

Notes to the financial statements

A description of these judgements and estimates is set out in note 2: Critical accounting judgements and estimates on page 94.

Consideration of climate change

In preparing the financial statements, the Directors have considered the impact of climate change. There has been no material impact identified on the financial reporting judgements and estimates of AIB UK Group. In particular, the Directors considered the impact of climate change in respect of the following areas:

- **Credit risk:** The impact of climate risk on the management, escalation and reporting of credit risk was considered by AIB UK Group. It was deemed that insufficient evidence of the likely loss impacts from climate events is available to adjust ECLs materially but that AIB UK Group's approach to individual counterparty risk assessment adequately captures climate risk where appropriate. This is set out in further detail on page 117.
- **Impairment of non-financial assets**: AIB UK Group applies the requirements of IAS 36 *Impairment of Assets* in assessing whether impacted assets are impaired at a reporting date. AIB UK Group has a robust process to identify assets which may be impaired that requires the identification of all material potential impairment triggers including identification of climate related impairment triggers. In addition, AIB UK Group's commitment to be net zero in its own operations does not impact the useful lives of AIB UK Group's impacted assets as AIB UK Group proposes to replace impacted assets as their useful lives expire.

Whilst there is currently no medium-term impact expected from climate change, the Directors are aware of the ever-changing risks attached to climate change and will regularly assess these risks against judgements and estimates made in preparation of AIB UK Group's financial statements.

Going concern

The financial statements for the year ended 31 December 2022 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting AIB UK 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.

In making its assessment, the Directors have considered factors under the areas of strategy, performance, capital, liquidity and support from AIB plc.

A wide range of information relating to present and future conditions has been considered including business and financial plans which reflect the new AIB UK strategy 2021-2023, liquidity and funding forecasts, and capital resources projections, all of which have been prepared under base and stress scenarios. In formulating these plans the Directors have considered the current UK economic environment, and forecasts for growth and employment, as well as the outlook for the Irish and Eurozone economies, and the factors and uncertainties impacting their performance.

The Directors have also considered the principal risks and uncertainties, as part of the MRA process including the geo-political landscape, which could materially affect AIB UK Group's future business performance and profitability and which are outlined on pages 36 to 41. The impact of UK trading partnerships with the EU following the UK's exit from the EU could lead to a further deterioration in market and economic conditions in the UK and Ireland, which could adversely affect AIB UK Group's business, financial condition, results of operations and prospects.

The Directors believe AIB UK Group's capital resources are sufficient to ensure the Company is adequately capitalised as set out in the capital plan to December 2025. The Company's regulatory capital resources are outlined on page 19. AIB UK Group's liquidity is outlined on page 20 and the Directors are satisfied with the capital and liquidity position of AIB UK Group.

The Parent Group continues to support AIB UK operationally, through an outsourced arrangement. AIB plc has provided a letter stating it will continue to provide financial support, so AIB UK Group can meet its funding obligations and capital requirements, for a period of not less than twelve months from the date these financial statements are approved by the Directors.

On the basis of the above factors, the Directors are satisfied that it continues to be appropriate to prepare the financial statements of AIB UK Group on a going concern basis, having concluded there are no material uncertainties related to events or conditions that may cast significant doubt on AIB UK Group's ability to continue as a going concern over the period of assessment.

Notes to the financial statements

Adoption of new accounting standards
There were no new accounting standards/amendments to standards effective for annual periods beginning 1 January 2022 apart from minor amendments to IFRSs through both standalone amendments and through the Annual Improvements to IFRS Standards 2018 – 2020 cycle. None of these had a significant impact on reported results or disclosures.

AIB UK Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

1.4 Basis of consolidation
AIB UK Group financial information includes the accounts of AIB UK and its subsidiary undertakings made up to the end of the financial period.

As permitted by Section 408 of the Companies Act 2006, no income statement is presented for the company, AIB UK. Intra-group balances and any unrealised gains and losses and expenses arising from intra-group transactions, are eliminated on consolidation.

Subsidiary undertakings
A subsidiary undertaking is an investee controlled by AIB UK. AIB UK 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 AIB UK Group's financial statements from the date on which control commences until the date that control ceases.

AIB UK reassesses whether it controls a subsidiary when facts and circumstances indicate that there are changes to one or more elements of control. See note 23: Investments in group undertakings for the list of subsidiaries within AIB UK Group.

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.

Consistent accounting policies are applied throughout AIB UK Group for the purposes of consolidation.

AIB UK financial statements: Investment in subsidiary undertakings
AIB UK accounts for investments in subsidiary undertakings that are not classified as held for sale at cost less provisions for impairment. If the investment is classified as held for sale, AIB UK accounts for it at the lower of its carrying value and fair value less costs to sell.

AIB UK reviews its equity investment for impairment at the end of each reporting period if there are indications that impairment may have occurred. In addition, an assessment is carried out where there are indications that impairment losses recognised in prior periods may no longer exist or may have decreased.

The testing for possible impairment involves comparing the estimated recoverable amount of an investment with its carrying amount. Where the recoverable amount is less than the carrying amount, the difference is recognised as an impairment provision in AIB UK's financial statements. The recoverable amount is the higher of fair value less costs to sell and value-in-use ('VIU').

For previously impaired investments, where the assessment indicates an increase in the recoverable amount, the impairment loss recognised in earlier periods is reversed. However, the carrying amount will only be increased up to the amount that it would have been had the original impairment not been recognised.

1.5 Foreign currency translation
Items included in the financial statements of each of AIB UK 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.

Notes to the financial statements

Exchange differences on a financial instrument designated as a hedge of the net investment in a foreign operation are reported in other comprehensive income.

1.6 Interest income and expense recognition

Interest income and expense is recognised in the income statement for all interest-bearing financial instruments using the effective interest rate method.

Effective interest rate

The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

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, AIB UK Group estimates cash flows (using projections based on its experience of customers' behaviour) considering all contractual terms of the financial instrument but excluding future credit losses. The calculation takes into account all fees, including those for any expected early redemption, and amounts 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.

Interest income and expense presented in the consolidated income statement includes:

– Interest on financial assets and financial liabilities at amortised cost calculated using the effective interest rate method;
– 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 excluding dividends on equity shares.

Amortised cost and gross carrying amount

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The gross carrying amount of a financial asset is the amortised cost before adjusting for any loss allowance.

Calculation of interest income and interest expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability.

For financial assets that have become credit impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit impaired, the calculation of interest income reverts to the gross basis.

When a financial asset is no longer credit impaired, has been repaid in full, or cured without financial loss, AIB UK Group presents previously unrecognised interest income as a reversal of credit impairment/recovery of amounts previously written off.

1.7 Dividend income

Dividend income on equity investments measured at FVTPL are recognised in the income statement when AIB UK Group's right to receive payment is established and provided that they represent a return on capital. Usually this is the ex-dividend date for equity securities.

Dividends from a subsidiary undertaking are recognised in the income statement of AIB UK when AIB UK's right to receive the dividend is established.

Notes to the financial statements

1.8 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 AIB UK Group satisfies its performance obligations.

Fee and commission income is recognised when the performance obligation in the contract has been performed, either at a 'point in time', or 'over time' if the performance obligation is performed over a period of time, unless the income has been included in the effective interest rate calculation.

Loan syndication fees are recognised as revenue when the syndication has been completed and AIB UK 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.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Service charge income received from a fellow subsidiary, as part of the cost allocation process, is recognised within fee income in accordance with IAS 1.

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 for arrangement fees where it is likely that the facility will be drawn down and which are included in the effective interest rate calculation.

AIB UK 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 AIB UK Group's fee and commission income arises from retail banking activities such as fee and commission income from customer accounts, foreign exchange and branch commissions, card income and lending-related commitment fees.

1.9 Net trading income

Net trading income comprises gains less losses relating to trading assets, trading liabilities and trading derivatives, and includes all realised and unrealised fair value changes. Interest revenue is shown in 'Interest income'.

1.10 Employee benefits

Retirement benefit obligations

AIB UK Group provides employees with post-retirement benefits mainly in the form of pensions including defined benefit and defined contribution schemes. In addition, AIB UK Group contributes in accordance with UK legislation, to governmental and other schemes which have the characteristics of defined contribution schemes. The AIB UK defined benefit scheme is 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. For the Pensioner Buy-In ('PBI') insurance policy, the fair value is determined by the present value of the related obligation as the policy is a qualifying policy under IAS 19 *Employee Benefits* since the timing and amount of payments under the policy exactly match some or all of the benefits payable under the scheme. For the Assured Payment Policy ('APP') insurance policy there is not a sufficient match in terms of amount and timing of benefits payable under the scheme so fair value of the APP is determined by taking cash flows payable under the APP by the insurer and discounting them, at a rate equivalent to that at the point of execution of the policy, and adjusted for any change in the expected cash flows as a result of a change in future expected inflation and transfers out. Assets ring-fenced within a pension funding partnership, as part of an asset backed funding arrangement established for the AIB UK defined benefit scheme in December 2013, form part of the reported scheme assets. These assets are measured at fair value based on a deterministic model valuation provided by investment consultants.

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. If the scheme is in surplus it is shown as an asset and if the scheme is in deficit it is shown as a liability. 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 the defined benefit pension scheme 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.

AIB UK Group recognises the effect of an amendment to the defined benefit scheme when the plan amendment occurs, which is when AIB UK Group introduces or withdraws the defined benefit scheme, or changes the benefits payable under the existing defined benefit scheme. A curtailment is recognised when a significant reduction in the number of employees covered by the 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 negative 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 profit or loss when they are incurred.

The cost of AIB UK 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. AIB UK 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 AIB UK Group has a legal or constructive obligation to its employees that can be measured reliably. The cost of providing subsidised employee loans is charged within personnel expenses.

Termination benefits
Termination benefits are recognised as an expense at the earlier of when AIB UK Group can no longer withdraw the offer of those benefits and when AIB UK 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, AIB UK Group recognises the expense at the earlier of when the employee accepts the offer and when a restriction on AIB UK Group's ability to withdraw the offer takes effect.

Notes to the financial statements

1.11 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 it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income. Income tax relating to items in equity is recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the 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 it is probable that sufficient taxable profits will be available to allow all of the asset to be recovered.

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

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

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and financial liabilities including derivative contracts, provisions for pensions and other post-retirement benefits, and in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by AIB UK Group and it is probable that the difference will not reverse in the foreseeable future.

In addition, temporary differences are not provided for assets and liabilities, the initial recognition of which, in a transaction that is not a business combination, affects neither accounting nor taxable profit. Income tax payable on profits, based on the applicable tax law, is recognised as an expense in the period in which the profits arise.

1.12 Financial assets

Recognition and initial measurement

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

Financial assets measured at amortised cost or at fair value through other comprehensive income ('FVOCI') are recognised initially at fair value adjusted for direct and incremental transaction costs. Financial assets measured at fair value through profit or loss ('FVTPL') are recognised initially at fair value and transaction costs are taken directly to the income statement.

Derivatives are measured initially at fair value on the date on which the derivative contract is entered into. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. Profits or losses are only recognised on initial recognition of derivatives when there are observable current market transactions or valuation techniques that are based on observable market inputs.

Classification and subsequent measurement

On initial recognition, a financial asset is classified and subsequently measured at amortised cost, FVOCI or FVTPL.
The classification and subsequent measurement of financial assets depend on:

– AIB UK 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, AIB UK 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 ('SPPI'). The carrying amount of these assets is calculated using the effective interest rate method and is adjusted on each measurement date by the expected credit loss allowance for each asset, with movements recognised in profit or loss.

– Fair value through other comprehensive income

Assets that have not been designated as at FVTPL, and are held within a ‘hold-to-collect-and-sell’ business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and whose contractual terms give rise on specified dates to cash flows that are SPPI. Movements in the carrying amount of these assets are taken through other comprehensive income (‘OCI'), except for the recognition of credit impairment gains or losses, interest revenue or foreign exchange gains and losses, which are recognised in profit or loss. When a financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss other than in the case of equity instruments designated at FVOCI.

– Fair value through profit or loss

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. Gains or losses on such assets are recognised in profit or loss on an on-going basis.

In addition, AIB UK 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.

Business model assessment

AIB UK Group makes an assessment of the objective of the business model at a portfolio level, as this reflects how portfolios of assets are managed to achieve a particular objective, rather than management's intentions for individual assets.

The assessment considers the following:

– The strategy for the portfolio as communicated by management;
– How the performance of the portfolio is evaluated and reported to senior management;
– The risks that impact the performance of the business model, and how those risks are managed;
– How managers of the business are compensated (i.e. based on fair value of assets managed or on the contractual cash flows collected); and
– The frequency, value and timing of sales in prior periods, reasons for those sales, and expectations of future sales activity.

Financial assets that are held for trading or managed within a business model that is evaluated on a fair value basis are measured at FVTPL because the business objective is neither hold-to-collect contractual cash flows nor hold-to-collect-and-sell contractual cash flows.

Characteristics of the contractual cash flows

An assessment (‘SPPI test’) is performed on all financial assets at origination that are held within a ‘hold-to-collect’ or ‘hold-to-collect-and-sell’ business model to determine whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset at initial recognition. ‘Interest’ is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding, for other basic lending risks and costs (i.e. liquidity, administrative costs), and profit margin.

The SPPI test requires an assessment of the contractual terms and conditions to determine whether a financial asset contains any terms that could modify the timing or amount of contractual cash flows of the asset, to the extent that they could not be described as solely payments of principal and interest. In making this assessment, AIB UK 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 AIB UK Group's claim to cash flows from specified assets; and
– Contractually linked instruments.

Notes to the financial statements

Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Reclassifications

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

Investments in equity instruments

Equity instruments are classified and measured at FVTPL with gains and losses reflected in profit or loss.

On initial recognition, AIB UK 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.

1.13 Financial liabilities

AIB UK Group recognises a financial liability when it becomes party to the contractual provisions of the contract.

AIB UK Group categorises financial liabilities as at amortised cost or FVTPL.

Issued financial instruments or their components are classified as liabilities where the substance of the contractual arrangement results in AIB UK Group having a present obligation to either deliver cash or another financial asset to the holder, to exchange financial instruments on terms that are potentially unfavourable or to satisfy the obligation otherwise than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity shares.

Financial liabilities are initially recognised at fair value, being their issue proceeds (fair value of consideration received), net of transaction costs incurred. Financial liabilities are subsequently measured at amortised cost, with any difference between the proceeds net of transaction costs and the redemption value recognised in the income statement using the effective interest rate method.

Where financial liabilities are classified as trading they are also initially recognised at fair value with the related transaction costs taken directly to the income statement. Gains and losses arising from subsequent changes in fair value are recognised directly in the income statement within net trading income.

AIB UK 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 AIB UK 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.

1.14 Leases

Lessor

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownership, with or without ultimate legal title. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods under the pre-tax net investment method to reflect a constant periodic rate of return.

Assets leased to customers are classified as operating leases if the lease agreements do not transfer substantially all the risks and rewards of ownership. The leased assets are included within property, plant and equipment on the statement of financial position and depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful lives. Lease income is recognised on a straight line basis over the period of the lease unless another systematic basis is more appropriate.

Notes to the financial statements

Lessee

Identifying a lease

AIB UK Group assesses whether a contract is, or contains, a lease at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This assessment involves the exercise of judgement about whether it depends on a specified asset, whether AIB UK Group obtains substantially all the economic benefits from the use of that asset, and whether AIB UK Group has the right to direct the use of the asset.

Lease term

The lease term comprises the non-cancellable period of the lease contract for which AIB UK Group has the right to use an underlying asset together with:

– Periods covered by an option to extend the lease if AIB UK Group is reasonably certain to exercise that option; and
– Periods covered by an option to terminate the lease if AIB UK Group is reasonably certain not to exercise that option.

Recognition

AIB UK Group recognises a right-of-use asset and a lease liability at the commencement date of the contract for all leases except for short term leases of 12 months or less or leases where the underlying asset is of low value i.e. the value of the underlying asset, when new, is less than £5,000. The commencement date is the date on which a lessor makes an underlying asset available for use by AIB UK Group.

Initial measurement of right-of-use asset

The right-of-use asset is initially measured at cost, which comprises the amount of the initial measurement of the lease liability; any lease payments made at or before the commencement date, less any lease incentives; any initial direct costs incurred by AIB UK Group; and an estimate of costs to be incurred by AIB UK Group in dismantling and removing the underlying asset or restoring the site on which the asset is located.

AIB UK Group provides for dilapidations/restoration costs where it has been identified or planned that it intends on exiting the premises, and/or where it has completed extensive modifications. AIB UK Group recognises asset restoration obligations mainly in relation to leased head office locations and branches and any other space which would need to be restored to their previous condition when the lease ends.

Subsequent measurement of right-of-use asset

After the commencement date, a right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. AIB UK Group applies IAS 36 *Impairment of Assets* as set out in accounting policy 1.24 to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

AIB UK Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset and the end of the lease term on a straight-line basis.

Initial measurement of lease liability

The lease liability is initially measured at the present value of the lease payments that are payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, AIB UK Group's incremental borrowing rate.

The lease payments include fixed payments (including in-substance fixed payments); variable lease payments that depend on an index or a rate; and amounts expected to be payable by AIB UK Group under a residual value guarantee. The lease payments also include the exercise price of a purchase option if AIB UK Group is reasonably certain to exercise; lease payments in an optional renewal period if AIB UK Group is reasonably certain to exercise an extension option; and payments of penalties for terminating the lease, if the lease term reflects AIB UK Group exercising an option to terminate the lease.

Lease payments exclude variable elements which are dependent on external factors, e.g. payments that are based on transaction volume/usage. Variable lease payments that are not included in the initial measurement of the lease liability are recognised directly in the income statement in the period in which the event or condition that triggers these payments occurs.

Subsequent measurement of lease liability

After the commencement date, AIB UK Group measures the lease liability by increasing the carrying amount to reflect interest on the lease liability; by reducing the carrying amount to reflect lease payments made; and by remeasuring the carrying amount to reflect any reassessment or lease modifications.

The lease liability is measured at amortised cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in AIB UK Group's estimate of the amount expected to be payable under a residual value guarantee, or if AIB UK Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to nil.

Lease modifications

Lease modifications arise from changes to the underlying contract between AIB UK Group and the lessor. The accounting for the modification is dependent on whether the modification is considered a separate lease or not.

A lease modification is accounted for as a separate lease if both the modification increases the scope of the lease by adding the right to use one or more underlying assets and the consideration for the lease increases by an amount commensurate with the standalone price for the increase in scope. If both criteria are met, AIB UK Group adopts the accounting policy on the initial recognition and measurement of lease liabilities and right-of-use assets.

If a lease modification fails the test above or the modification is of any other type (e.g. a decrease in scope from the original contract), AIB UK Group must allocate the consideration in the modified contract to the lease components, determine the lease term of the modified lease and remeasure the lease liability by discounting the revised lease payments using a revised discount rate.

Sublease accounting

Where AIB UK Group sub-leases an asset (intermediate lessor) which it has leased from another lessor (the 'head lessor' who ultimately owns the asset from a legal perspective), AIB UK Group assesses whether the sub-lease is a finance or operating lease by reference to the right-of-use asset being leased, not the actual underlying asset. AIB UK Group concluded that there are no subleases in existence that require classification as finance leases under IFRS 16.

1.15 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, in the most advantageous market to which AIB UK Group has access at that date. AIB UK 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 AIB UK Group determines that the fair value at initial recognition differs from the transaction price and the fair value is determined by a quoted price in an active market for the same financial instrument, or by a valuation technique which uses only observable market inputs, the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss. If the fair value is calculated by a valuation technique that features significant market inputs that are not observable, the difference between the fair value at initial recognition and the transaction price is deferred.

Subsequently, the difference is recognised in the income statement on an appropriate basis over the life of the financial instrument, but no later than when the valuation is supported by wholly observable inputs; the transaction matures; or is closed out.

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

Quoted prices in active markets

Quoted market prices are used where those prices are considered to represent actual and regularly occurring market transactions for financial instruments in active markets. Valuations for negotiable instruments such as debt and equity securities are determined using bid prices for asset positions and ask prices for liability positions.

Where securities are traded on an exchange, the fair value is based on prices from the exchange. The market for debt securities largely operates on an 'over-the-counter' basis which means that there is not an official clearing or exchange price for these security instruments. Therefore, market makers and/or investment banks ('contributors') publish bid and ask levels which reflect an indicative price that they are prepared to buy and sell a particular security. AIB UK 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.

Notes to the financial statements

Valuation techniques
In the absence of quoted market prices, and in the case of over-the-counter derivatives, fair value is calculated using valuation techniques. These valuation techniques maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The valuation techniques used incorporate the factors that market participants would take into account in pricing a transaction. Valuation techniques include the use of recent orderly transactions between market participants, reference to other similar instruments, option pricing models, discounted cash flow ('DCF') analysis and other valuation techniques commonly used by market participants.

Fair value may be estimated using quoted market prices for similar instruments, adjusted for differences between the quoted instrument and the instrument being valued. Where the fair value is calculated using discounted cash flow analysis, the methodology is to use, to the extent possible, market data that is either directly observable or is implied from instrument prices, such as interest rate yield curves, equities and commodities prices, credit spreads, option volatilities and currency rates. In addition, AIB UK 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.

AIB UK 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, 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
AIB UK Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

1.16 Sale and repurchase agreements (including securities borrowing and lending)
Financial assets may be lent or sold subject to a commitment to repurchase them ('repos'). Such securities are retained on the statement of financial position when substantially all the risks and rewards of ownership remain with AIB UK 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 AIB UK 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 on the statement of financial position. The difference between the sale and repurchase price is accrued over the life of the agreements using the effective interest rate method. Securities lent to counterparties are also retained in the financial statements.

The exception to this is where these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss included in trading income.

1.17 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 whereas interest rate swaps, currency swaps, cross currency interest rate swaps and credit derivatives are used for hedging purposes.

AIB UK Group maintains trading positions in a variety of financial instruments including derivatives. Trading transactions arise as a result of activity generated by customers and include offsetting contracts with the Parent to ensure there is minimal market risk in the trading book. Non-trading derivative transactions comprise transactions held for hedging purposes as part of AIB UK 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.

Hedging

AIB UK Group has opted to remain with the IAS 39 *Financial Instruments: Recognition and Measurement* hedge accounting requirements until macro hedge accounting is addressed by the IASB as part of a separate project. This is an accounting policy choice allowed by IFRS 9 *Financial Instruments.*

All derivatives are carried at fair value and the accounting treatment of the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Where derivatives are held for risk management purposes, and where transactions meet the criteria specified in IAS 39 *Financial Instruments: Recognition and Measurement*, AIB UK 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').

When a financial instrument is designated as a hedge, AIB UK 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. AIB UK 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.

AIB UK 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, AIB UK 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.

Notes to the financial statements

Some of AIB UK Group's cash flow hedge relationships were affected by the interest rate benchmark reform. All the affected hedged items and hedging instruments were either transitioned to risk free rates or will be in line with regulatory deadlines which will change the basis for determining the interest cash flows from the relevant term rate to the relevant risk free rate at an agreed point in time. The hedge documentation has been amended accordingly.

Fair value hedge accounting
Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the fair value hedging adjustment cumulatively made to the carrying value of the hedged item is, for items carried at amortised cost, amortised over the period to maturity of the previously designated hedge relationship using the effective interest rate method. For debt securities measured at FVOCI, the fair value adjustment for hedged items is recognised in the income statement using the effective interest rate method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash flow hedge accounting
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is initially recognised directly in other comprehensive income and included in the cash flow hedging reserve in the statement of changes in equity. The amount recognised in other comprehensive income is reclassified 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.

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.

1.18 Derecognition

Financial assets
AIB UK 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 AIB UK 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 AIB UK Group, is recognised as a separate asset or liability.

AIB UK 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 AIB UK 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, AIB UK 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, AIB UK 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.

Notes to the financial statements

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.

Financial liabilities
AIB UK Group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

1.19 Impairment of financial assets
AIB UK Group recognises loss allowances for expected credit losses ('ECLs') 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);
– Financial guarantee contracts issued; and
– Loan commitments issued.

Investments in equity instruments are recognised at fair value and accordingly, ECLs are not recognised separately for equity instruments.

ECLs are the weighted average of credit losses.

When measuring ECLs, AIB UK 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 the increase in credit risk since initial recognition. There are two measurement bases:
– 12-month ECLs (Stage 1), which applies to items where there has been 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. The 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 risk 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 AIB UK Group's loss given default models ('LGD').

Purchased or originated credit impaired
POCI financial assets are those that are credit impaired on initial recognition. AIB UK 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.

AIB UK Group do not have any purchased or originated credit impaired financial assets.

Modification and derecognition of financial assets
From time to time, AIB UK Group will modify the original terms of a customer's loan either as part of the on-going relationship or arising from changes in the customer's circumstances such as when that customer is unable to make the agreed original contractual repayments.

A modification refers to either:
– A change to the previous terms and conditions of a debt contract; or
– A total or partial refinancing of a debt contract.

Modifications may occur for both customers in distress and for those not in distress. Any financial asset that undergoes a change or renegotiation of cash flows and is not derecognised is a modified financial asset.

When modification does not result in derecognition, the modified assets are treated as the same continuous lending agreement and a modification gain or loss is taken to profit or loss immediately.

The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

The stage allocation for modified assets which are not derecognised is by reference to the credit risk at initial recognition of the original, unmodified contractual terms i.e. the date of initial recognition is not reset.

Where renegotiation of the terms of a financial asset leads to a customer granting equity to AIB UK 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.

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, AIB UK Group may repossess collateral previously pledged as security to achieve an orderly realisation of the loan. AIB UK Group will then offer this repossessed collateral for sale. However, if AIB UK 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 AIB UK 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
ECL allowances for financial assets measured at FVOCI do 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 OCI as an accumulated credit impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit or loss upon derecognition of the assets (together with other accumulated gains and losses in OCI).

Write-offs and debt forgiveness
AIB UK 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, AIB UK 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.

Notes to the financial statements

1.20 Collateral and netting

Collateral

AIB UK Group obtains collateral in respect of customer receivables where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives AIB UK 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.

AIB UK Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as securities borrowing contracts and derivative contracts to reduce credit risk. Collateral pledged in the form of securities is not recorded on the statement of financial position. Collateral pledged in the form of cash is recorded on the statement of financial position with a corresponding liability. 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, AIB UK 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

AIB UK 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.

Financial assets and financial liabilities are offset and the net amount reported in 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.

All balances and transactions with the Parent Group are subject to a master netting agreement between the Company and the Parent Group where there is a legal right to settle on a net basis if certain circumstances arise.

1.21 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, AIB UK Group issues financial guarantees to other subsidiaries of the Parent.

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.

The origination date for financial guarantees and loan commitment 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.

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, AIB UK Group applies the impairment methodology of IFRS 9 *Financial Instruments* and calculates an ECL allowance for financial guarantees and loan commitment contracts (i.e. those that are not measured at FVTPL).

The ECL allowance calculated on financial guarantees and loan commitment contracts is reported within 'Provisions for liabilities and commitments'.

1.22 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.

AIB UK 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

[1] Subject to the maximum remaining life of the lease.

AIB UK Group depreciates right-of-use assets arising under lease obligations from the commencement date of a lease to the earlier of the end of the useful life of the right-of-use asset and the end of the lease term on a straight-line basis.

AIB UK 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 AIB UK 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, AIB UK Group estimates the amount that it would currently obtain from 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 AIB UK Group policy not to revalue its property, plant and equipment.

1.23 Intangible assets

Computer software and other intangible assets with finite useful lives 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 AIB UK Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred. Capitalised computer software is amortised over 3 to 9 years. Other intangible assets are amortised over the life of the asset.

1.24 Impairment of property, plant and equipment 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. 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. Fair value less costs to sell is calculated by reference to the amount at which the asset could be disposed of in an arm’s length transaction evidenced by an active market or recent transactions for similar assets. 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.

1.25 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. Financial assets within the scope of IFRS 9 *Financial Instruments* continue to be measured in accordance with that standard. No reclassifications are made in respect of prior periods.

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.

1.26 Provisions for liabilities and commitments

Provisions are recognised for present legal or constructive obligations arising as consequences of past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

When the effect is material, provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Payments are deducted from the present value of the provision, and interest at the relevant discount rate, is charged annually to interest expense using the effective interest rate method. Changes in the present value of the liability as a result of movements in interest rates are included in 'other income'. The present value of provisions is reported within 'provisions for liabilities and commitments' in the statement of financial position.

Restructuring costs

Where AIB UK 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 by 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.

Customer redress

Provisions are made for customer redress where AIB UK Group has an obligation, arising from a past event, to refund customers for fees or charges incurred in previous periods. Provision is made where it is probable that a refund will be made and the amount can be reliably estimated.

Legal claims and other contingencies

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

Onerous contracts

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, AIB UK Group recognises any impairment loss on the assets associated with the lease contract. As a lease liability is created to reflect future rental obligations, in accordance with IFRS 16, no provision is made for rent within the onerous contract provision.

Dilapidations

AIB UK Group provides for dilapidation or restoration costs on leasehold property where it has been identified or planned that it intends to exit the premises, and/or where it has completed extensive modifications. AIB UK Group recognises asset restoration obligations mainly in relation to leased head office locations and branches and any other space which would need to be restored to its previous condition when the lease ends.

1.27 Shareholders' equity

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

On extinguishment of equity instruments, gains or losses arising are recognised net of tax directly in the statement of changes in equity.

Share capital
Share capital represents funds raised by issuing shares in return for cash or other consideration. Share capital comprises ordinary shares of the entity.

Share premium
When shares are issued at a premium whether for cash or otherwise, the excess of the amount received over the par value of the shares is transferred to share premium.

Dividends and distributions
Dividends on ordinary shares are recognised in equity in the period in which they are approved by AIB UK shareholders.

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

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

Investment securities reserves
Investment securities reserves represent the net unrealised gain or loss, net of tax, arising from the recognition in the statement of financial position of investment securities at FVOCI.

On disposal of equity securities which on initial recognition had been designated at FVOCI, 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.

Capital contributions
Capital contributions represent the receipt of non-refundable considerations from the Parent. These contributions can comprise both financial and non-financial 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.

Revenue reserves
Revenue reserves represent retained earnings of the Company, subsidiaries and associated undertakings. It is shown net of the cumulative surplus within the defined benefit pension scheme and other appropriate adjustments.

1.28 Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents comprises cash on hand, demand deposits (excluding regulatory balances with the Bank of England) and deposits by banks that are repayable on demand.

1.29 Prospective accounting changes
The following amendments to existing standards which have been approved by the IASB, but not early adopted by AIB UK Group, will impact AIB UK Group's financial reporting in future periods. AIB UK Group will consider the impact of these amendments as the situation requires. The amendments which are most relevant to AIB UK Group are detailed below.

Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*: Disclosure of Accounting Policies
The amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements* regarding disclosure of accounting policies which were issued in February 2021, amends IAS 1 in the following way:
– Disclosure of material accounting policy information is now required instead of significant accounting policies.
– Amendments have been included to clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial and if users of an entity's financial statements would need it to understand other material information in the financial statements.

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

These amendments will not have a material impact on AIB UK Group.

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

The amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* were issued in February 2021 to help entities to distinguish between accounting policies and accounting estimates. The changes relate entirely to accounting estimates and clarify the following:

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

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

These amendments will not have a material impact on AIB UK Group.

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

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

– An exemption from the initial recognition exemption provided in IAS 12.15(b) and IAS 12.24.

Accordingly, the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

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

These amendments will not have a material impact on AIB UK Group.

Amendments to IAS 1 *Presentation of Financial Statements:* Classification of Liabilities as Current or Non-current

In January 2020, July 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 *Presentation of Financial Statements* to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

– What is meant by a right to defer settlement;
– That a right to defer must exist at the end of the reporting period;
– That classification is unaffected by the likelihood that an entity will exercise its deferral right;
– That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification; and
– That covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Instead, information about these covenants should be disclosed in the notes to the financial statements.

Effective date: Annual reporting periods beginning on or after 1 January 2024.

These amendments are not expected to have a significant impact on AIB Group UK.

Amendments to IFRS 16 *Leases*: Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued amendments to IFRS 16 *Leases* that require a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss that relates to the right of use it retains.

The new requirements do not prevent a seller-lessee from recognising in profit or loss any gain or loss relating to the partial or full termination of a lease.

Effective date: Annual reporting periods beginning on or after 1 January 2024.

These amendments are not expected to have a significant impact on AIB Group UK.

Other

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

2. Critical accounting judgements and estimates

The preparation of financial statements requires management to make judgements, in the application of accounting policies, and estimates and assumptions that affect the 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 assessments concerning the likelihood of future events, the actual results could differ from those estimates.

The areas involving a higher degree of judgement or areas where assumptions and estimates are deemed to have a significant impact on the financial statements are set out in this note.

Impairment of financial assets

AIB UK Group's accounting policy for impairment of financial assets is set out in note 1.19. The ECL allowances for financial assets at 31 December 2022 represent management's best estimate of the expected credit losses on the various portfolios at the reporting date.

The calculation of ECL allowances is complex and the Bank must consider large amounts of information in the determination of such expectations of future credit losses.

Judgement is involved in:

- Determining the criteria for a significant increase in credit risk and for being classified as credit impaired;
- Choosing the appropriate models and assumptions for ECL e.g. PD, LGD and exposure at default ('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;
- Determining the requirement, and the appropriate methodology, for any post-model adjustments (see note 21(a) for further details);
- Stratifying financial assets into groups with similar risk characteristics.

Estimates are involved in the inputs into the ECL calculation including DCFs, collateral valuations, and time to realisation of collateral. Estimates are also involved in determining the amount of post-model adjustments (see note 21(a) for further details).

The sensitivity of the ECL allowance to changes in the macroeconomic scenarios used in the calculation are set out in note 21(b) and 21(c).

Further information on impairment of financial assets measurement, methodologies and judgements is set out in note 21(a).

Recoverability of deferred tax asset

AIB UK Group's accounting policy for deferred tax is set out in note 1.11 and details of AIB UK Group's deferred tax assets and liabilities are set out in note 27.

In recognising a deferred tax asset for unutilised losses the Directors' make certain judgements around the recoverability of the deferred tax asset.

Judgement is involved in determining the period of time over which it is probable there will be sufficient future taxable profits against which the unutilised losses can be used.

Estimates of the level of future profitability are made in determining the amount of deferred tax asset on unutilised losses to recognise at the reporting date. This includes estimating the impact of economic conditions on future profitability.

The factors considered by management in making these judgements and assumptions for the estimates are disclosed in note 27 together with a sensitivity analysis of the deferred tax asset to a change in the estimate of future profitability.

Notes to the financial statements

Retirement benefit obligations
AIB UK Group's accounting policy for retirement benefit plans is set out in note 1.10 and details of the key assumptions and the valuation of the AIB Group (UK) Pension Scheme (the 'UK Scheme'), at 31 December 2022 are set out in note 28.

Judgement is involved in determining the appropriate models to base the fair value, financial and demographic assumptions on. The choice of these drives the valuation of the UK Scheme assets and liabilities reported in the financial statements.

Judgement is involved in determining the appropriate accounting treatment of the annual conversion of a portion of the APP to PBI. The decision resulted in any losses associated with entering into the PBI being recognised in other comprehensive income.

Estimates are made by the Directors of a number of financial and demographic assumptions under advice from the Company's actuaries. This includes estimates of the discount rate, inflation rate and the expected 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. The assumptions adopted for the UK Scheme are set out in note 28 to the financial statements, together with a sensitivity analysis of the scheme assets (APP and SLP assets) and scheme liabilities to changes in those assumptions.

Fair value of investment securities
The fair value of the investment securities (note 22) has been identified as a key source of estimation uncertainty at 31 December 2022 that has a significant risk of resulting in a material adjustment within the next year.

Estimates are involved in assessing the fair value of the equity investment securities based on expected sale proceeds. The expected sale proceeds of £50m at 31 December 2022 have been based on a net asset value of the underlying trading entity. Applying different assumptions at 31 December 2022 to determine expected sale proceeds could materially impact the fair value estimation. A 10% increase in the net asset value of the underlying entity would increase the fair value of the investment by £5m to £55m. A reduction in the net asset value to €240m would reduce the fair value by £15m to £35m. These sensitivities are included in the level 3 measurements table within note 38 on page 153. Using a revenue multiplier estimation and applying a revenue multiplier of between 3.5 and 4.5 to the income of the underlying trading entity would give an investment security valuation of between £46m and £59m.

Notes to the financial statements

3. Interest income

	2022 £m	2021 £m
Interest on loans and advances to banks at amortised cost	52	21
Interest on loans and advances to customers at amortised cost	224	192
Interest income calculated using the effective interest method	276	213
Interest income on finance leases and hire purchase contracts	4	5
Total interest income	280	218

4. Interest expense

	2022 £m	2021 £m
Interest on deposits by banks	3	8
Interest on customer accounts	24	10
Interest on secondary non-preferential debt	—	1
Interest on lease liabilities (note 31)	—	1
Interest expense calculated using the effective interest method	27	20

Interest expense reported above, calculated using the effective interest method, relates to financial liabilities not carried at fair value though profit or loss.

5. Net fee and commission income

	2022 £m	2021 £m
Retail banking customer fees	14	14
Credit related fees	11	12
Foreign exchange fees	9	7
Service charge[1]	3	3
Credit card commission	2	3
Other fees and commission	9	6
Fee and commission income	48	45
Fee and commission expense	(4)	(4)
	44	41

[1]The service charge relates to income received from a fellow subsidiary, as part of the cost allocation process, whereby AIB UK is reimbursed for personnel and administration costs incurred servicing the company.

Fees and commissions which are an integral part of the effective interest rate are recognised as part of interest and similar income (note 3) or interest and similar expense (note 4).

Notes to the financial statements

6. Net trading and other financial income

	2022 £m	2021 £m
Interest rate contracts	**8**	7
	8	7

The total hedging ineffectiveness on cash flow hedges reflected in the income statement is £nil in 2022 (2021: £nil).

7. Net gain on other financial assets measured at FVTPL

	2022 £m	2021 £m
Investment securities - equity	**10**	6
	10	6

8. Net loss on derecognition of financial assets measured at amortised cost

	2022	
	Carrying value of derecognised financial assets measured at amortised cost **£m**	**Loss from derecognition** **£m**
Loans and advances to customers	**265**	**(16)**
	265	**(16)**

	2021	
	Carrying value of derecognised financial assets measured at amortised cost £m	Loss from derecognition £m
Loans and advances to customers	302	(8)
	302	(8)

In 2022, £15m of the loss from derecognition arose from the sale of a portfolio of AIB GB performing small and medium enterprise ('SME') loans (2021: £9m) and £1m from the sale of a non-performing portfolio of loans (see note 15). In 2021, the loss of £9m on the sale of the performing SME loans was offset by a profit of £1m on the disposal of other loans and advances to customers.

9. Other operating income/(expense)

	2022 £m	2021 £m
Profit/(loss) on disposal of property (note 25)	**2**	(3)
	2	(3)

Notes to the financial statements

10. Operating expenses

	2022	2021
	£m	£m
Wages and salaries	39	50
Social security costs	5	6
Termination benefits[1]	2	11
Pension costs		
- Defined contribution plans (note 28)	6	8
- Defined benefit plans (note 28)	(1)	—
Other personnel expenses	13	15
Personnel expenses	64	90
General and administrative expenses[2]	45	51
Operating expenses	109	141

[1]For the year ended 31 December 2022, a charge of £2m (2021: £11m) was made to the income statement in respect of termination benefits arising from the voluntary severance programme in operation in AIB UK Group. £2m of the charge at 31 December 2022 (2021: £10m) relates to the restructuring provision, explained in note 33(b).

[2]Includes a charge of £nil (2021: £6m) relating to the restructuring provision (note 33(b)); £2m writeback (2021: £3m) of litigation and other provisions for liabilities (note 33); £1m (2021: £1m) in respect of the FSCS levy; and operating lease rentals of £nil (2021: £1m).

The monthly average number of employees (full time equivalents) of AIB UK Group and AIB UK during the year was 656 (2021: 901).

11. Auditor's remuneration

Auditor’s remuneration is included within operating expenses in the income statement. The charges included in 2022 and 2021 shown below are exclusive of Value Added Tax (VAT). The fees were payable by AIB UK Group to the principal auditor, Deloitte LLP.

	2022	2021
	£’000	£’000
Audit fees for statutory audit[1]	981	1,005
Other assurance services (including regulatory compliance work)[2]	18	158
Audit of pension schemes associated with AIB UK Group	49	44
	1,048	1,207

[1]The audit of subsidiaries is included within the statutory audit fee. No additional audit fees were charged in 2022 in relation to the 2021 audit (2021: £93k in relation to the 2020 audit).

[2]Other assurance services includes Bank of England Assurance Reporting; CASS Client Money Reporting; and Term Funding Scheme Assurance Reporting. Due to their nature these services are usually performed by the external auditor.

Notes to the financial statements

12. Net credit impairment (charge)/writeback

The following table analyses the income statement net credit impairment (charge)/writeback on financial instruments for the years ended 31 December 2022 and 2021.

	2022	2021
	Measured at amortised cost	Measured at amortised cost
Credit impairment (charge)/writeback on financial instruments	**£m**	£m
Net re-measurement of ECL allowance:		
Loans and advances to customers	**(45)**	6
Loan commitments (note 33)	**2**	(1)
Credit impairment (charge)/writeback before recoveries	**(43)**	5
Recoveries of amounts written-off in previous years	**2**	3
Net credit impairment (charge)/writeback	**(41)**	8

13. Taxation

	2022	2021
	£m	£m
Current tax		
Corporation tax in the UK		
UK corporation tax on income for the year	**(20)**	(7)
Current tax charge for the year	**(20)**	(7)
Deferred tax		
Origination and reversal of temporary differences		
- Current year	**(5)**	(1)
- Prior year	**—**	4
Change in deferred tax on losses of previously not recognised losses:		
- Current year	**2**	85
Deferred tax (charge)/credit for the year (note 27)	**(3)**	88
Total tax (charge)/credit for the year	**(23)**	81

The tax charge for the period is a lower charge (2021: higher credit) than the 2022 standard average rate of corporation tax in the UK of 19% (2021: 19%). The differences are explained below:

	2022	2021
	£m	£m
Corporation tax charge at standard average rate	**(26)**	(17)
Effects of:		
Expenses not deductible for tax purposes	**2**	2
Exempted income, income at reduced rates and tax credits	**2**	1
Income taxed at bank surcharge rate	**(7)**	(4)
Deferred tax amounts previously not recognised	**7**	71
Change in tax rate	**(1)**	24
Adjustments to tax charge in respect of prior years	**—**	4
Tax (charge)/credit	**(23)**	81

At 31 December 2022 the current taxation balance of AIB UK Group was an asset of £6m (2021: £28m) and of AIB UK was an asset of £6m (2021: £28m).

14. Dividends on equity shares

No dividends were paid during 2022 or 2021.

15. Transfer of financial assets

Continuing involvement in derecognised financial assets

Transfers to AIB UK Loan Management Limited ('UKLM')
In 2010 and 2011, AIB UK transferred certain impaired and vulnerable loans to UKLM, a subsidiary of AIB plc. These loans were derecognised by AIB UK. However, AIB UK retains servicing rights in respect of the transferred financial assets which represents continuing involvement with those assets. Under the servicing arrangements AIB UK collects the cash flows on the transferred assets on behalf of UKLM and in return AIB UK receives a fee to compensate adequately for performing the servicing of these assets (see note 5).

Sale of assets to third parties
AIB UK Group sold a portfolio of GB SME loans with a net book value of £206m to a third party in May 2022 for a consideration of £196m. After taking into account selling, post signing movement and other costs, a loss on disposal of £15m was recorded on this transaction (see note 8). The loans were derecognised from the balance sheet on 31 May 2022, the date consent to sell the loans was received. AIB UK continued to service the loans on behalf of the purchaser until transition of the final loans was completed in October 2022. AIB UK received a fee for servicing the loans while they were in transition.

AIB UK Group sold a portfolio of non-performing loans with a net book value of £37m to a third party in December 2022 for a consideration of £40m. After taking into account selling, post signing movement and other costs, a loss on disposal of £1m was recorded on this transaction (see note 8). The loans were derecognised from the balance sheet at the date of sale of 21 December 2022. AIB UK are continuing to service the loans on behalf of the purchaser until transition is completed later in 2023. At 31 December 2022, an amount of £34m, relating to sale proceeds net of cash collections from customers, was due to be received from the purchaser (see note 26). This amount was received from the purchaser on 28 February 2023.

16. Derivative financial instruments

AIB UK Group transacts derivatives for two primary purposes: to provide risk management solutions to clients; and to manage and hedge AIB UK Group's own risks. Derivative instruments are contractual agreements whose value is derived from price movements in underlying assets, interest rates, foreign exchange rates or indices.

Most of AIB UK Group's derivative transactions relate to sales activities which result from the marketing of derivative products to customers to enable them to reduce current or expected risks and the related matching derivatives taken out with AIB plc that enable AIB UK Group to close out the risks arising from the customer facilitations.

Other derivatives classified as held for trading include derivatives that are entered into for risk management purposes but do not meet the criteria for hedge accounting under IFRS 9.

Gains and losses from changes in the fair value of derivatives that do not qualify for hedge accounting, together with the ineffective portion of qualifying hedging derivatives, are reported in 'Net trading and other financial income'.

Hedging derivatives

In addition to meeting customer needs, AIB UK Group's principal objective in holding or issuing derivatives for purposes other than trading is the management of interest rate risks.

The operations of AIB UK 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 AIB UK Group to achieve liquidity and risk management objectives.

The accounting treatment of hedge transactions varies according to the nature of the instrument being hedged and the type of hedge transactions. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges, cash flow hedges, or net investment hedges.

With respect to exchange rate and interest rate contracts, the notional or contractual amounts of these instruments indicate the nominal value of transactions outstanding at the year end.

Cash flow hedges

AIB UK Group is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at variable rates or which are expected to be re-funded or re-invested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their contractual term and other relevant factors, including estimates of prepayments and defaults.

The aggregate principal balances and interest cash flows across all portfolios over time form the basis for identifying gains and losses on the effective portions of derivatives designated as cash flow hedges. These are initially recognised directly in equity as gains or losses not recognised in the income statement and are transferred to the income statement when the forecast cash flows affect net profit or loss.

The gains and losses on ineffective portions of such derivatives are recognised immediately in the income statement.

The net movement in derivatives designated as cash flow hedges recognised directly in equity through the statement of comprehensive income during 2022 is set out in note 35.

All derivative financial instruments held are over-the-counter ('OTC') instruments.

AIB UK 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 described in the Risk management section.

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

				2022				2021
	Less than 1 year	**1 to 5 years**	**5 years+**	**Total**	Less than 1 year	1 to 5 years	5 years+	Total
Residual maturity	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m
Notional principal amount	**1,139**	**2,920**	**3,455**	**7,514**	3,894	2,669	3,247	9,810
Positive fair value	**12**	**80**	**128**	**220**	8	16	67	91

The concentration of exposures of AIB Group UK, in respect of notional principal amounts of £7,514m (2021: £9,810m) and positive fair value of interest rate and exchange rate contracts of £220m (2021: £91m), are in the UK as concentrations are based primarily on the location of the office recording the transaction.

The following table presents the notional principal amount of interest rate, exchange rate and hedging derivative contracts together with the positive and negative fair values attaching to those contracts at 31 December 2022 and 2021:

			2022			2021
	Notional principal amount	**Fair values Assets**	**Liabilities**	Notional principal amount	Fair values Assets	Liabilities
	£m	**£m**	**£m**	£m	£m	£m
Derivatives held for trading						
Interest rate derivatives - OTC						
Interest rate swaps	**2,701**	**155**	**(157)**	3,429	71	(74)
Interest rate options bought and sold	**529**	**11**	**(8)**	641	2	(1)
Total interest rate derivatives	**3,230**	**166**	**(165)**	4,070	73	(75)
Foreign exchange derivatives - OTC						
Foreign exchange contracts	**253**	**6**	**(6)**	307	5	(5)
Total foreign exchange derivatives	**253**	**6**	**(6)**	307	5	(5)
Total derivatives held for trading	**3,483**	**172**	**(171)**	4,377	78	(80)
Derivatives held for hedging						
Derivatives designated as cash flow hedges - OTC						
Interest rate swaps	**4,031**	**48**	**(335)**	5,433	13	(48)
Total derivatives designated as cash flow hedges	**4,031**	**48**	**(335)**	5,433	13	(48)
Total derivatives held for hedging	**4,031**	**48**	**(335)**	5,433	13	(48)
Total derivative financial instruments	**7,514**	**220**	**(506)**	9,810	91	(128)

Cash flow hedges

The table below sets out the hedged cash flows which are expected to occur in the following periods. It also sets out the hedged cash flows which are expected to impact the income statement in the following periods:

	AIB UK Group & AIB UK				
					2022
	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
	£m	£m	£m	£m	£m
Forecast receivable cash flows	**134**	**104**	**196**	**112**	**546**
Forecast payable cash flows	**30**	**24**	**33**	**5**	**92**

	AIB UK Group & AIB UK				
					2021
	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
	£m	£m	£m	£m	£m
Forecast receivable cash flows	25	31	60	31	147
Forecast payable cash flows	7	7	9	—	23

For AIB UK Group, the ineffectiveness reflected in the income statement that arose from cash flow hedges is £nil (2021: £nil). The total amount recognised in other comprehensive income net of tax in respect of cash flow hedges was a loss of £185m (2021: loss of £57m).

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.

Notes to the financial statements

17. Loans and advances to banks

	AIB UK Group		AIB UK	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
At amortised cost				
Funds placed with central banks	**232**	303	**232**	303
Funds placed with other banks	**323**	334	**323**	334
Loss allowance (note 20)	**—**	—	**—**	—
Total loans and advances to banks	**555**	637	**555**	637
Amounts include:				
Due from AIB plc and fellow subsidiaries	**232**	233	**232**	232
External rating:				
AA/AA-	**233**	309	**233**	309
A+/A/A-	**90**	95	**90**	95
BBB+/BBB-/BB+/BB-	**232**	233	**232**	233
	555	637	**555**	637

Under reverse repurchase agreements, AIB UK Group can accept collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. No collateral was received in 2022 (2021: £nil) in respect of government securities. No collateral (2021: £nil) was repledged to the Bank of England as collateral for BACS membership.

Amounts due from AIB plc and fellow subsidiaries were assessed for an ECL at 31 December 2022 and 2021. It was determined that the ECL on the intercompany loans at 31 December 2022 was £nil, as the Directors expected to fully recover the amounts owed. An insignificant ECL was held on the intercompany loans at 31 December 2021.

18. Loans and advances to customers

	AIB UK Group & AIB UK	
	2022	2021
	£m	£m
At amortised cost		
Loans and advances to customers	**5,817**	6,268
Amounts receivable under finance leases and hire purchase contracts (note 19)	**98**	131
	5,915	6,399
Loss allowance (note 20)	**(197)**	(201)
Total loans and advances to customers	**5,718**	6,198
Amounts include:		
Due from AIB plc and fellow subsidiaries	**13**	13

Amounts due from AIB plc and fellow subsidiaries were assessed for an ECL at 31 December 2022 and 2021. It was determined that the ECL on the intercompany loans at 31 December 2022 was £nil (2021: £nil), as the Directors expected to fully recover the amounts owed.

Further disclosures relevant to AIB UK Group's loans and advances to customers are included in note 21: Credit risk disclosures.

19. 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:

	AIB UK Group & AIB UK	
	2022	2021
	£m	£m
Gross receivables		
Not later than 1 year	**47**	66
Later than 1 year and not later than 2 years	**25**	31
Later than 2 years and not later than 3 years	**15**	21
Later than 3 years and not later than 4 years	**10**	11
Later than 4 years and not later than 5 years	**4**	6
Later than 5 years	**1**	1
Total gross receivables	**102**	136
Unearned future finance income	**(4)**	(5)
Present value of minimum payments	**98**	131
ECL allowance for uncollectible minimum payments receivable[1]	**1**	8

[1]Included in the ECL allowance on loans and advances to customers (note 20).

20. Loss allowance on financial assets

The following table shows the movements in the expected credit loss allowance on financial assets.

	AIB UK Group & AIB UK	
	2022	2021
	£m	£m
At 1 January	**201**	245
Net remeasurement of loss allowance - customers (note 12)	**45**	(6)
Changes in loss allowance due to write-offs	**(14)**	(14)
Changes in loss allowance due to derecognition	**(35)**	(24)
At 31 December	**197**	201
Amount included in financial assets measured at amortised cost:		
Loans and advances to banks	**—**	—
Loans and advances to customers	**197**	201
	197	201

AIB UK Group's accounting policy for impairment of financial assets is set out in note 1.19. Whilst provisioning is a continuous process, provision adequacy is formally reviewed in AIB UK Group on a monthly basis to determine the overall provision requirement across all credit portfolios.

Further disclosures relevant to AIB UK Group's loans and advances to customers are included in note 21: Credit risk disclosures.

21. Credit risk disclosures

Credit risk management objectives are to:
– Establish and maintain a control framework;
– Control and plan credit risk taking in line with external stakeholder expectations;
– Identify, assess and measure credit risk clearly and accurately across AIB UK Group; and
– Monitor credit risk and adherence to agreed controls.

(a) Measurement, methodologies and judgements

AIB UK Group, in estimating its ECL allowance does so in line with the expected credit loss impairment model as set out by the International Financial Reporting Standard 9 (IFRS 9) *Financial Instruments* ('the standard'). This model requires a timely recognition of ECL across AIB UK Group. The standard does not prescribe specific approaches to be used in estimating ECL allowances, but stresses that the approach must reflect the following:
– An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
– Underlying models should be point in time and forward looking – recognising economic conditions;
– The ECL must reflect the time value of money;
– A lifetime ECL is calculated for financial assets in Stages 2 and 3; and
– The ECL calculation must incorporate reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

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

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

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

Bases of measurement

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

Staging

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

Credit risk at origination

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

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

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

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

Stage 1 characteristics
Obligations are classified Stage 1 at origination, unless POCI, with a 12 month ECL being recognised. These obligations remain in Stage 1 unless there has been a significant increase in credit risk.

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

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

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

SICR assessment
AIB UK Group's SICR assessment is determined based on both quantitative and qualitative measures:

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

Qualitative measure: This measure reflects the assessment of the change in credit risk based on AIB UK Group's credit management and the individual characteristics of the financial asset. This is not model driven and seeks to capture any change in credit quality that may not be already captured by the quantitative criteria. The qualitative assessment reflects pro-active credit management including monitoring of account activity on an individual or portfolio level, knowledge of client behaviour, and cognisance of industry and economic trends.

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

Lender assessed SICR triggers: Further specific qualitative SICR indicators have been identified in order to ensure appropriate and timely identification of increased credit risk, which when occur, trigger a SICR event.

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

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

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

Stage 3 characteristics

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

The key criteria resulting in a classification of default are:

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

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

Measurement of expected credit loss

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

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

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

iii. Discounted cash-flows ('DCFs'): Assets are grouped together and modelled based on asset classification and sector with the exception of those Stage 3 assets where a DCF is used. DCFs are used as an input to the ECL calculation for Stage 3 credit impaired exposures where gross credit exposure is ≥ £500,000. Where the gross credit exposure is < £5 million, the DCF assessment produces a base case ECL and the impact of macroeconomic scenarios are applied as a PMA (see page 111). Multiple DCFs are captured where gross credit exposure is ≥ £5 million to reflect the case specific impacts of up and downside scenarios for these higher value exposures.

   Collateral valuations and the estimated time to realisation of collateral is a key component of the DCF model. AIB UK Group incorporates forward looking information in the assessment of individual borrowers through the credit assessment process. Where a single DCF is utilised this assessment produces a base case ECL. This is then adjusted to incorporate the impact of multiple scenarios on the base ECL, by using a proportional uplift obtained from ECL modelled sensitivities in the same/similar portfolio. Where a range of scenarios are captured through multiple DCFs, these are probability weighted to produce the final ECL. An adjustment is made for cases with very low final ECL to ensure a minimum level of ECL is maintained.

iv. Management judgement: Where the estimate of ECL does not adequately capture all available forward looking information about the range of possible outcomes, or where there is a significant degree of uncertainty, management judgement may be considered appropriate for an adjustment to ECL. The management adjustment must consider all relevant and supportable information, including but not limited to, historical data analysis, predictive modelling and management experience. The methodology to incorporate the adjustment should consider the degree of any relevant over collateralisation (headroom) and should not result in a zero overall ECL unless there is sufficient headroom to support this. The key judgements in the 2022 year end ECL estimates are outlined on page 111.

Effective interest rate

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

– AIB UK 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.
– AIB UK Group has tested the appropriateness of using current interest rates as an approximation for the discount rates required for measuring ECLs. This testing determined that using the current interest rates as the discount rate is an appropriate approximation.

Notes to the financial statements

Policy elections and simplifications
Low credit risk exemption

AIB UK Group utilises practical expedients, as allowed by IFRS 9, for the stage allocation of particular financial instruments which are deemed 'low credit risk'. This practical expedient permits AIB UK 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. AIB UK Group allocates such assets to Stage 1.

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

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

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

Short term cash

AIB UK Group's IFRS 9 Impairment policy does not require calculation of an ECL for short term cash at central banks and other banks which have a low risk of default with a very low risk profile. The calculation of the ECL at each reporting date would be immaterial given these exposures' short term nature and their daily management.

Lease receivables and trade receivables

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

IFRS 9 ECL credit risk models

The IFRS 9 ECL models provide the risk parameters which are the inputs into the model driven estimate of ECL which is used across all Stage 1 and Stage 2 portfolios plus all non-DCF Stage 3 exposures.

IFRS 9 portfolio delineation

Similar to the internal rating models the IFRS 9 models are delineated into retail and non-retail portfolios. The retail IFRS 9 portfolios provide exposure level risk parameter estimates which take into account borrower level characteristics and metrics, where appropriate, whilst the non-retail portfolios provide metrics which are either borrower or connection level estimates.

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 is a point in time estimate which is reflective of the current and expected economic conditions.

In order to capture the appropriate risk dynamics across the lifetime of the exposure the development process considers:
- Macroeconomic effects captured through factors such as unemployment rate and GDP;
- Cross-sectional risk discriminators, in particular, the internal rating model outputs plus other factors such as forbearance and days past due; and
- Seasoning factors such as product type, delinquency and forbearance status.

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 AIB UK Group (i.e. the exposure) and the net present value of future cash flows less any relevant costs expected to be incurred in the recovery process. If an account returns to performing from default (excluding any loss making concession) or if the discounted post-default recoveries are equal to or greater than the exposure, the realised loss is zero.

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

– **Retail portfolios**
  For unsecured loans, a cash flow curve, which estimates the cumulative cash received following default until the loan is written-off or returns to performing, is used to estimate the future recovery amount. This is discounted at the effective interest rate and compared to the current outstanding balance. Any shortfall between the recovery amount and the outstanding balance is the LGD used to estimate ECL. Where appropriate, this may then be adjusted to reflect economic conditions.

  For secured loans the following may be considered:
  - 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 plus associated costs) in order to calculate the future recovery amount;
  - The potential for the exposure to be deleveraged through a portfolio sale taking into account the costs associated with same; and
  - Paths for returning to the performing portfolios such as forbearance and self-cure.

– **Non-retail portfolios**
  For unsecured loans, characteristics such as borrower sector and nature of collateral linked to affiliated accounts under the same customer group are used to determine future losses based on historical experience of discounted recoveries.

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

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

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

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

Determining the period over which to measure ECL
Both the origination date and the expected maturity of a facility must be determined for ECL purposes. The origination date is used to measure credit risk at origination.

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

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

Forward looking indicators in the models
For ECL calculations reliant on models in the standard and simplified approaches, forward looking indicators are incorporated into the models through the use of macroeconomic variables. These have been identified statistically as the key macroeconomic variables that drive the parameter being assessed (e.g. PD or LGD). The final model structure incorporates these as inputs with the 12 month and lifetime calculations utilising the macroeconomic forecasts for each scenario. See section (b) 'Macroeconomic scenarios and weightings' for more detail on the process for generating scenarios and associated key macroeconomic factors relevant for the models. In circumstances where there is a risk that the modelled output fails to capture the appropriate response to changes in the macroeconomic environment such as inflation and interest rate changes, these risks are captured through the use of post model adjustments.

Post model adjustments ('PMAs')
The ECL allowance at 31 December 2022 includes the following management adjustments to capture risks that have not been included within the ECL model.

Macroeconomic factors
An ECL adjustment of £25m (Stage 1: £9m and Stage 2: £16m) has been applied in the non-property business (£17m) and property portfolios (£8m) to apply a greater impact for the moderate down and severe scenarios than that currently observed from the deployed macroeconomic scenarios at 31 December 2022.

Emerging headwinds
An adjustment of £9m (£6m non-property business and £3m property business) is required where the modelled outcomes are not sensitive to the uncertainties associated with the impact of current emerging economic headwinds, along with a slowdown in CRE.

Stage 3 PMAs
A PMA has been applied to implement an LGD floor of 5% to all non-retail loans and 1% to residential mortgage loans in Stage 3. An adjustment is also applied to reflect the impact of multiple scenarios on Stage 3 ECLs to resolve current limitations. In total, these adjustments increased Stage 3 ECLs by £7m (Non-property business: £5m; Property: £1m; Residential mortgages: £1m).

In addition, a PMA to increase ECLs by £19m was applied to reflect anticipated costs on an expected sale of a cohort of Stage 3 exposures in 2023 (Non-property business: £14m; Property £5m).

In total, PMAs of £26m were applied to total Stage 3 loans of £329m.

The total effect of all PMAs is to increase ECLs by £60m. This compares to £18m at 31 December 2021 which was principally required to reflect the Stage 3 PMAs relating to the LGD floor, impact of multiple scenarios and execution costs for an expected sale of non-performing loans.

Write-offs
When the prospects of recovering a loan, either partially or fully, do not improve, a point may come when it will be concluded that as there is no realistic prospect of recovery, the loan and any related ECL will be written-off. AIB UK Group determines, based on specific criteria, the point at which there is no reasonable expectation of recovery. When the following criteria exist (or comparable circumstances arise), the loan can be subject to a partial or full write-off:
- A decision has been taken to enforce on a loan, due to no agreement with the customer for a restructure/settlement and all customer engagement with AIB UK Group regarding their loan agreement has ceased;
- Inception of informal insolvency proceedings has commenced or is about to commence;
- Receivership or other formal recovery action (e.g. where expectation of recovery of collateral is expected through enforcement activity but no additional recoveries above the collateral value are anticipated) has commenced or is about to commence; and
- A loan is substantially provided for or no material repayments have been received for a period of time (minimum 12 months) and all customer engagement with AIB UK Group regarding their loan agreement has ceased.

Debt forgiveness may subsequently arise where there is a formal contract with the customer for the write-off of the loan. In addition, certain forbearance solutions and restructuring agreements may include an element of debt write down (debt forgiveness). Details of forbearance are set out on pages 127 to 129.

The contractual amount outstanding of loans written-off during the year that are still subject to enforcement activity is outlined on page 127 and relate to non-contracted write-offs, both full and partial.

AIB UK 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.

(b) Macroeconomic scenarios and weightings
The macroeconomic scenarios used by AIB UK Group for ECL allowance calculations are subject to the Parent Group's existing governance process and approval of the AIB UK Board Audit Committee. The parameters used within AIB UK Group's ECL models include macroeconomic factors which have been established as drivers of the default risk and loss estimates. Therefore, a different credit loss estimate is produced for each scenario based on a combination of these identified macroeconomic factors. The credit loss estimates for each given scenario are then weighted by the assessed likelihood of occurrence of the respective scenarios to yield the ECL outcome.

Macroeconomic scenarios:
Following the Russian invasion of Ukraine in February 2022, global energy and food commodity prices surged. This intensified pre-existing inflationary pressures caused by supply bottlenecks in many economies as they recovered following the lifting of COVID-19 restrictions. Against this background, the greatest risk to the outlook (base scenario) is for persistently elevated inflation coupled with higher interest rates which depress economic activity. A range of possible scenarios has been considered in formulating the ECL calculation, as at the financial reporting date. These entail credible risks and uncertainties to the economic outlook including *inter alia* possible energy supply rationing, a deterioration in financial conditions, renewed short waves of COVID-19 infections, as well as a prolonged period of elevated inflation – all possible triggers of a future economic downturn.

The Parent Group has used four scenarios in the ECL calculation consisting of a base scenario, along with three alternative scenarios. These consist of one upside; a mild downside scenario entailing disruptions to energy supplies and a re-emergence of the COVID-19 virus; while a more severe downside considers a cut-off of Russian gas supplies to Europe with persistently high inflation which necessitates a hike in official interest rates. Non-linear effects are captured in the development of risk parameters as well as through the inclusion of both the single upside and two downside scenarios.

The Parent Group's Economic Research Unit ('ERU') provides the scenario forecasts over five years. The base case is benchmarked against the outlook available from official sources (e.g. Bank of England, International Monetary Fund, Office for Budget Responsibility etc.) to ensure it is appropriate. Upside and downside scenarios, relative to the base case, are provided to ensure a reasonable range of possible outcomes is available for the IFRS 9 process. These scenarios are benchmarked to alternative scenarios from official sources, where possible. The longer term economic projections (beyond five years) are sourced from a reputable external provider with the internal scenarios converging on a linear basis towards the external forecasts from years 5 to 8. External long term forecasts represent long term base line forecasts for the parameter/economy in question. The forecasted scenarios are reviewed and approved through the Parent Group's governance process and by the AIB UK Board Audit Committee.

The scenarios are described below and reflect the views of AIB UK Group at the reporting date. However, an ECL adjustment of £25m has been applied to reflect a greater impact for the downside scenarios than that currently observed from the deployed macroeconomic scenarios below, at 31 December 2022.

Base case: A combination of a very sharp acceleration in inflation, partly owing to the war in Ukraine, and marked tightening of monetary policy and financial conditions resulted in a pronounced slowdown in global growth during 2022, which is expected to extend well into 2023. The economic backdrop has become far more challenging as the global economy moves into a period of weak growth, elevated inflation and rising interest rates. As a result, global growth forecasts for both 2022 and 2023 have been scaled back significantly from earlier in the year.

The AIB baseline forecasts are for the UK economy to contract by 1.0% in 2023 and 0.5% in 2024. A moderate pick-up in global growth from 2024 onwards is expected as real household incomes are boosted by falling inflation and some of the tightening in monetary conditions in 2022 and 2023 are reversed. Growth accelerates to 1.5% in the Eurozone and 1.5% to 2.0% in the US from 2024, but recovery is delayed in a weakened UK economy until 2025.

Unemployment has fallen to very low levels in nearly all economies. It is expected to rise only moderately over the period 2023 to 2025, as most labour markets are characterised by a shortage of workers and high job vacancies. Inflation has hit 40-year highs. Commodity price inflation began easing during the second half of 2022, which combined with weakening activity and positive base effects, should see the UK inflation rates fall back to circa 2% by early 2025. Continuing high gas prices in 2023, though, would pose a serious risk to this inflation outlook.

Interest rates are expected to continue to be hiked aggressively into 2023, averaging 4.7% in the UK. A correction in the housing market is expected with a fall of circa 4% projected in UK house prices for the 2023-2024 period. With ongoing weakness in economic activity, commercial property prices fall sharply from the second half of 2022, bottoming out during 2024 and only begin to recover from early 2025 onwards.

Downside 1 (‘Lower growth in 2023’): In the moderate downside scenario, risks to growth prove to have a more negative impact on activity than provided for in the base case. In particular, the war in Ukraine has a more significant impact on growth than expected, with ongoing disruptions of gas supplies to Europe from Russia. There are continuing short waves of COVID-19 infections necessitating some restrictions on activity, most notably in China.

As a result, the major economies all experience a significant recession in 2023, with the downturn continuing in the UK in 2024. This is followed by a sluggish recovery in activity. There is a marked rise in UK unemployment everywhere, averaging 7.5% in both 2025 and 2026.

There are significant falls in property prices. House prices in the UK decline by 15% over the 2023-2024 period while commercial real estate prices fall by 16%.

Interest rates peak at the end of 2022, with central banks implementing rate cuts in the 2023-2024 period with the view that leaving policy unchanged would see inflation fall below 2% by end 2024. Rates are cut to zero in the Eurozone and circa 0.5% in the US and UK, while inflation settles at around its 2% target from end of 2024 onwards.

Downside 2 (‘Energy shock and persistently high inflation’): The war in Ukraine is assumed to have a much more severe impact on global economic activity than anticipated by forecasters. Inflation stays very high in both 2023 and 2024 with ongoing interruptions in European gas imports from Russia, continuing disruptions to global supply chains, greater second round price effects and wage inflation picking up. Central banks are forced into a very sharp tightening of monetary policy. Conditions in financial markets tighten further, with a surge in bond yields, blow out in credit spreads and more sharp falls on stock markets. Emerging markets come under severe pressure in particular.

The combination of energy and financial market shocks as well as the very sharp tightening of monetary policy triggers a severe global recession in the 2023-2024 period. The main economies see GDP decline by circa 2% in 2023 and 2% to 2.5% in 2024. UK GDP growth contracts by 2.3% and 2.5% in 2023 and 2024, respectively, and is 3.9% lower by 2025 than in base case. The economy only starts to grow again in 2026 and 2027.

Jobless rates rise to very high levels in the main economies, with the UK rate averaging 9.5% in 2026.

Given that the main advanced economies enter a deep recession in the 2023-2024 period, there are very large property price falls in the UK with the cumulative decline in residential property prices (to mid-2025 trough) of 30%. By the end of 2025, house prices are over 26% lower than would be the case in the base scenario. Commercial real estate prices fall by circa 36% in the period 2023 to 2025.

The Bank of England raises rates to 5.13% (average) in 2023. Inflation falls back during 2025 allowing the Bank of England to lower rates aggressively. Rates do not return to previous lows as inflation settles around its 2% target in the 2025-2026 period. Thus, rates come down to 1%, some 100bps above previous lows.

Upside (‘Quick economic recovery’): In the upside scenario, an assumed combination of an end to the war in Ukraine in early 2023, accelerated deployment of vaccines globally which brings about a quicker than expected suppression of the coronavirus together with a faster than anticipated rundown of personal and corporate savings, boosts business and consumer confidence and lifts global growth.

In this scenario, GDP is some 3.2% higher in most economies than in the base case by 2025. UK GDP growth in cumulative terms over the period 2023-2025 amounts to 4.6%. World GDP growth then decelerates to trend over the 2026-2027 period. As a result, unemployment falls further in all economies (e.g. averaging 3.6% in the UK during 2025). Assumptions for inflation are assumed to be identical to those forecast for the base case (with rates reverting to the Bank of England 2% target from 2025 onwards).

With the stronger growth in economic activity, UK property prices perform much better than in the base case scenario. UK house price growth averaging 2.4% per annum over the 2023-2025 period while commercial real estate prices increase by 3% per annum on average over the same period.

Central banks hike rates at a quicker pace than in the base scenario. Rates average 5% in each of the years 2024 to 2026 in the UK.

The table below sets out the five year average forecast for each of the key macroeconomic variables (which have been approved by the governance process set out above) that are required to generate the scenarios or are material drivers of the ECL under (i) Base, (ii) Downside 1, (iii) Downside 2 and (iv) Upside scenarios at 31 December 2022 (average over 2023-2027) and at 31 December 2021 (average over 2022-2026).

Notes to the financial statements

All of the macroeconomic scenarios reported in the table below are those provided by the Parent Group's ERU and approved prior to the year-end 2022.

				2022
				5 year (2023-2027) average forecast
Macroeconomic factor (%)	**Base**	**Downside 1 ('Lower growth in 2023')**	**Downside 2 ('Energy shock and persistently high inflation')**	**Upside ('Quick economic recovery')**
United Kingdom				
GDP growth	**0.4**	**0.3**	**(0.3)**	**1.5**
Residential property price growth	**0.2**	**(1.6)**	**(5.7)**	**2.2**
Unemployment rate	**5.1**	**6.8**	**8.3**	**3.7**
Commercial property price growth	**0.2**	**(2.2)**	**(6.9)**	**2.6**
Inflation	**3.3**	**3.3**	**4.4**	**4.2**

				2021
				5 year (2022-2026) average forecast
Macroeconomic factor (%)	Base	Downside 1 ('Lower growth in 2022')	Downside 2 ('Persistent high inflation')	Upside ('Quick economic recovery')
United Kingdom				
GDP growth	2.4	1.8	1.1	3.0
Residential property price growth	2.0	(0.1)	(3.7)	3.0
Unemployment rate	4.6	6.6	8.0	4.3
Commercial property price growth	1.5	(0.6)	(5.1)	3.6
Inflation	2.0	1.7	2.5	2.4

Additional information is provided in the table below which details the individual macroeconomic factor forecast for each year across the four scenarios, as at 31 December 2022.

	Estimate					**Base**					**Downside 1**
	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2023**	**2024**	**2025**	**2026**	**2027**
Macroeconomic factor (%)	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
GDP growth	**4.3**	**(1.0)**	**(0.5)**	**0.6**	**1.3**	**1.5**	**(1.5)**	**(1.2)**	**0.8**	**1.5**	**1.7**
Residential property price growth	**4.5**	**(3.0)**	**(1.0)**	**1.0**	**2.0**	**2.0**	**(11.0)**	**(4.5)**	**1.5**	**3.0**	**3.0**
Unemployment rate	**3.9**	**4.6**	**5.2**	**5.5**	**5.3**	**5.0**	**5.5**	**6.7**	**7.5**	**7.5**	**7.0**
Commercial property price growth	**(3.5)**	**(8.0)**	**(2.0)**	**3.0**	**4.0**	**4.0**	**(12.5)**	**(4.0)**	**1.5**	**2.0**	**2.0**
Inflation	**9.2**	**7.5**	**3.0**	**2.0**	**2.0**	**2.0**	**7.5**	**3.0**	**2.0**	**2.0**	**2.0**

					Downside 2					**Upside**
	2023	**2024**	**2025**	**2026**	**2027**	**2023**	**2024**	**2025**	**2026**	**2027**
Macroeconomic factor (%)	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
GDP growth	**(2.3)**	**(2.5)**	**—**	**1.5**	**2.0**	**1.0**	**1.5**	**2.0**	**1.7**	**1.4**
Residential property price growth	**(14.0)**	**(16.0)**	**(1.0)**	**1.0**	**1.5**	**3.0**	**2.0**	**2.0**	**2.0**	**2.0**
Unemployment rate	**6.0**	**7.8**	**9.0**	**9.5**	**9.0**	**3.8**	**3.7**	**3.6**	**3.7**	**3.8**
Commercial property price growth	**(17.0)**	**(18.5)**	**(5.5)**	**2.5**	**4.0**	**3.5**	**3.0**	**2.5**	**2.0**	**2.0**
Inflation	**9.0**	**6.0**	**3.0**	**2.0**	**2.0**	**8.0**	**5.0**	**3.7**	**2.5**	**2.0**

The key changes to the scenario forecasts in the reporting period have been driven by the outbreak of war in Ukraine, following the Russian invasion, in addition to mounting inflationary pressures and monetary policy tightening by global central banks. The wider economic impact of the war in Ukraine has generated elevated uncertainty with respect to the economic outlook largely due to concerns over energy security and a surge in pre-existing inflationary pressures largely driven by much higher commodity prices (in particular gas and raw foodstuffs). These developments have resulted in a significant re-assessment of the outlook and balance of risks during 2022.

Notes to the financial statements

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

Similar to the scenario forecasts, the probability weight assigned to each scenario is proposed by the Parent Group's ERU. These are reviewed and approved by the Parent Group's governance processes, and by the AIB UK Board Audit Committee. The probabilities described below reflect the views of AIB UK Group at the reporting date.

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

The key drivers of the weightings at the reporting date are:

– The base case forecasts were benchmarked to be on the conservative side of consensus projections on the basis that it is prudent to adopt such a bias in light of the weak global backdrop and downside risks facing the macroeconomic outlook. A recession is expected in the UK, with GDP contracting, a significant rise in unemployment and falls in house and commercial real estate prices.
– Reflecting a worsening economic situation in the UK, the baseline assumptions for UK GDP were revised downwards in the final quarter of 2022 leaving the forecast on the conservative side of external benchmark projections. Downward revisions to commercial real estate base case forecasts were also made.
– The balance of risks to the forecasts is still heavily skewed to the downside with revisions to consensus forecasts for growth in the 2023-2024 period trending firmly downwards. Forecasters also highlight that the balance of risks to their latest projections remain tilted to the downside, with real concerns that the world economy could be hit by recession in 2023 – the moderate downside and severe scenarios entail significant recessions in the major economies.
– The sharp rise in inflation during 2022, with annual rates rising above 10% in the UK recently, is a concern as is the risk that inflation will prove slow to fall back, which would pose a downside risk to growth prospects in the period 2023-2024 in terms of an ongoing hit to real disposable incomes and consumer spending. The war in Ukraine has added to downside risks, especially in relation to the flow of European gas supplies in the 2023-2024 period.
– There is also a risk to global growth from monetary tightening, whereby in their efforts to dampen inflation, central banks hike rates to the extent that it tips economies into recession. Rates were hiked aggressively in the second half of 2022. The political turmoil following the September 2022 'mini-budget' led to higher interest rates, generating uncertainty and economic fragility against a background of subdued growth and elevated inflation, ultimately necessitating an almost complete reversal of the budgetary measures.

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

Scenario	**Weighting 31 December 2022**
Base	**45 %**
Downside 1 ('Lower growth in 2023')	**30 %**
Downside 2 ('Energy shock and persistently high inflation')	**15 %**
Upside ('Quick economic recovery')	**10 %**

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

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

(c) Sensitivities

AIB UK 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 forward looking macroeconomic variables. Given the co-relationship of each of the macroeconomic variables to one another and the fact that loss estimates do not follow a linear path, a sensitivity to any single economic variable is not meaningful. As such, the following sensitivities are provided which indicate the approximate impact on the current ECL allowance before the application of probability weights to the forward looking macroeconomic scenarios. The sensitivities provide an indication of ECL movements that include changes in model parameters, quantitative 'significant increase in credit risk' ('SICR') staging assignments with post model adjustments predominantly impacting only where scenario specific features form an integral part of the adjustment. Further details on post model adjustments are outlined on page 111.

The table below sets out the average five year forecast for each of the key macroeconomic variables forecast under (i) 100% Base; (ii) 100% Downside 1; (iii) 100% Downside 2; and (iv) 100% Upside scenarios at 31 December 2022 and 2021 with the sensitivity based on application of 100% weighting to each of the economic scenarios.

					2022
	Reported	**100% Base**	**100% Downside 1 ('Lower growth in 2023')**	**100% Downside 2 ('Energy shock and persistently high inflation')**	**100% Upside ('Quick economic recovery')**
Loans and advances to customers	**£m**	**£m**	**£m**	**£m**	**£m**
Residential mortgages	**4**	**4**	**4**	**4**	**4**
Other personal	**1**	**1**	**1**	**2**	**1**
Property and construction	**41**	**33**	**45**	**61**	**32**
Non-property business	**151**	**134**	**159**	**205**	**122**
Total	**197**	**172**	**209**	**272**	**159**
Off-balance sheet loan commitments	**9**	**8**	**8**	**10**	**7**
Financial guarantee contracts	**—**	**—**	**—**	**—**	**—**
	206	**180**	**217**	**282**	**166**

					2021
	Reported	100% Base	100% Downside 1 ('Lower growth in 2022')	100% Downside 2 ('Persistent high inflation')	100% Upside ('Quick economic recovery')
Loans and advances to customers	£m	£m	£m	£m	£m
Residential mortgages	5	5	6	7	5
Other personal	1	1	1	2	1
Property and construction	27	27	27	31	25
Non-property business	168	166	174	201	159
Total	201	199	208	241	190
Off-balance sheet loan commitments	10	10	11	14	9
Financial guarantee contracts	1	1	1	1	1
	212	210	220	256	200

(d) Credit risk management consideration of ESG risks

AIB UK Group continues to adapt its credit risk management processes and policies to capture environmental, social, and governance ('ESG') risks. Throughout 2022, UK Group has remained focused on embedding the following key initiatives:

– Continued use of heat mapping exercises in order to scale individual sub-sector exposures to levels of climate change and environment risks.
– Relevant Business Credit Application Guidelines/Procedures and Credit Sanctioning policies requirements in respect of the assessment of certain borrower's exposure to ESG factors, in particular environmental factors and impact of climate change and the appropriateness of mitigating strategies as set out by the borrower are continuing to be embedded.
– The ESG questionnaire was implemented in our credit risk management process in 2021 for certain cohorts requiring a more intensive analysis of borrowers in sub-sectors considered as part of the heat mapping exercise to have a higher risk to climate change related and environmental risks. In 2022, work commenced to further enhance and refine this tool, broadening the scope of coverage at both counterparty and sector level.
– The property valuation process continues to obtain BER/EPC ratings where applicable, which are captured in collateral valuations and recorded on AIB UK Group's systems.
– A Sustainable Lending Framework was introduced in 2021 and continues to categorise and identify relevant lending activities as green/transition for internal tracking and external disclosure purposes.
– The impact of climate risk was considered as part of the ECL governance process for the position as at 31 December 2022 and it was deemed that insufficient evidence of the likely loss impacts from climate events is available to adjust ECLs. The impact of climate risk will continue to be monitored in 2023 to ensure ECLs appropriately reflect latent risk from potentially emerging climate risks.

(e) Maximum credit risk exposure

The maximum credit risk exposure of AIB UK Group at 31 December 2022, ignoring any collateral that may be held, is detailed below. 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 AIB UK 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 credit risks arising from balances at central banks is deemed to be negligible based on its maturity and counterparty status.

	2022	2021
Statement of financial position	**£m**	£m
Balances at central banks at amortised cost[1]	3,879	5,241
Derivative financial instruments at FVTPL	220	91
Loans and advances to banks	555	637
Loans and advances to customers	5,718	6,198
Prepayments and accrued income	7	10
Other assets	55	17
	10,434	12,194
Total off-balance sheet items	2,321	2,145
Maximum exposure to credit risk	12,755	14,339

[1]Included within Cash and balances at central banks (does not include cash on hand).

Notes to the financial statements

(f) Credit quality of loans and advances

AIB UK Group's credit risk methodologies continue to be embedded as a core tool in the operational and strategic management of credit risk and for risk based credit pricing. Resourcing, structures, policy and processes are subjected to on-going review to ensure the front line team is best placed to manage asset quality and assist borrowers in line with agreed treatment strategies, refer to Risk Management report, page 34.

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

Internal credit grades are fundamental in assessing the credit quality of loan exposures, and are key to management reporting, credit portfolio analysis, credit quality monitoring and in determining the level and nature of management attention applied to exposures. Credit models generally use a combination of statistical analysis (using both financial and non-financial inputs) and expert judgement.

Credit grading and scoring systems underpin the early identification and management of any deterioration in loan quality. Changes in objective information are reflected in the credit grade of the borrower/loan with the resultant grade influencing management of individual loans. Special attention is paid to lower quality performing loans or 'criticised' loans and non-performing/defaulted loans which are defined below. AIB UK Group's criticised loans are subject to more intense assessment and review because of the increased risk associated with them.

The credit grading masterscale gives AIB UK Group 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 the risk models with the Parent Group's Forbearance and Definition of Default and Credit Impairment policies. Masterscale grades are driven by grading model appropriate through the cycle PDs combined with other asset quality indicators such as default, forbearance and arrears to provide AIB UK Group with a mechanism of ranking and comparing the 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	Accounts are considered strong/satisfactory if they have no current or recent credit distress and generally the probability of default is typically less than 6.95%, they are not in arrears and there are no indications they are unlikely to repay.
Criticised	Accounts of lower credit quality and considered as less than satisfactory are referred to as criticised and include the following: **Criticised watch**: The credit is exhibiting weakness and is deteriorating 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 having transitioned from default, but still require additional management attention to monitor for re-default and continuing improvement in terms of credit quality.
Non-performing/ default	Accounts that are considered as non-performing or defaulted. Loans are identified as non-performing or defaulted by using a number of characteristics. The key criteria resulting in a classification of non-performing are: - Where AIB UK Group considers a borrower to be unlikely to pay their loans in full without realisation of collateral, regardless of the existence of any past-due amount; or - The borrower is 90 days or more past due on any material loan (date count starts when any material amount of principal, interest or fee has not been paid by a borrower at the date it was due); or - Loans that have, as a result of financial distress (as defined within the Parent Group's Forbearance policy), received a concession from AIB UK Group on terms or conditions, and will remain in the non-performing probationary period for a minimum of 12 months before moving to a performing classification.

Notes to the financial statements

Credit profile of the loan portfolio

AIB UK 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 table below analyses the internal credit grading profile by ECL staging for loans and advances to customers at 31 December 2022 and 2021:

Amortised cost

				2022
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	£m	**£m**	**£m**	**£m**
Total strong/satisfactory	**4,593**	**458**	**—**	**5,051**
Criticised watch	**21**	**153**	**—**	**174**
Criticised recovery	**—**	**361**	**—**	**361**
Total criticised	**21**	**514**	**—**	**535**
Non-performing	**—**	**—**	**329**	**329**
Gross carrying amount	**4,614**	**972**	**329**	**5,915**
ECL allowance	**(33)**	**(82)**	**(82)**	**(197)**
Carrying amount	**4,581**	**890**	**247**	**5,718**

Amortised cost

				2021
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Total strong/satisfactory	4,736	474	—	5,210
Criticised Watch	55	187	—	242
Criticised Recovery	—	435	—	435
Total criticised	55	622	—	677
Non-performing	—	—	512	512
Gross carrying amount	4,791	1,096	512	6,399
ECL allowance	(28)	(80)	(93)	(201)
Carrying amount	4,763	1,016	419	6,198

(g) Concentration exposure

Credit concentration risk arises where any single exposure or group of exposures, based on common risk characteristics, has the potential to produce losses large enough relative to AIB UK Group's capital, total assets, earnings or overall risk level to threaten AIB UK Group's ability to maintain its core operations.

As set out in the Managing Director's Review on page 7, AIB UK Group has a sector focused strategy. The sectoral analysis below is a broad industry analysis of the loan book which shows the most significant sector concentrations. Some of the key sectors that AIB UK Group's strategy is focusing on, such as health, hospitality and tourism, are included within 'Other services' below.

At 31 December 2022 the most significant concentration of exposures were to the property and construction sector, which made up 26% (2021: 21%) of loans and advances to customers, energy, 21% (2021: 16%), other services, 13% (2021: 18%), and distribution, 11% (2021: 17%) of loans and advances.

The following table sets out the concentration of credit by industry sector for loans and advances to customers together with loan commitments and financial guarantees issued showing the ECL stage profile at 31 December 2022 and 2021:

							2022
	Gross carrying amount			Analysed by ECL profile			
	Loans and advances to customers	Loan commitments and financial guarantees issued	Total	Stage 1	Stage 2	Stage 3	Total
Concentration by sector	£m	£m	£m	£m	£m	£m	£m
Non-property business:							
Agriculture	59	13	72	50	19	3	72
Energy	1,245	477	1,722	1,599	123	—	1,722
Manufacturing	170	129	299	244	15	40	299
Distribution	639	132	771	306	341	124	771
Transport	488	228	716	530	186	—	716
Financial	71	106	177	163	14	—	177
Other services	761	324	1,085	799	215	71	1,085
Property and construction	1,542	752	2,294	2,049	177	68	2,294
Residential mortgages	875	23	898	843	22	33	898
Other personal	65	137	202	180	19	3	202
	5,915	2,321	8,236	6,763	1,131	342	8,236

Notes to the financial statements

							2021
	Gross carrying amount			Analysed by ECL profile			
	Loans and advances to customers	Loan commitments and financial guarantees issued	Total	Stage 1	Stage 2	Stage 3	Total
Concentration by sector	£m	£m	£m	£m	£m	£m	£m
Non-property business:							
Agriculture	78	14	92	76	15	1	92
Energy	1,006	288	1,294	1,177	87	30	1,294
Manufacturing	209	128	337	260	53	24	337
Distribution	1,080	138	1,218	438	523	257	1,218
Transport	420	94	514	354	160	—	514
Financial	88	105	193	190	2	1	193
Other services	1,145	589	1,734	1,403	225	106	1,734
Property and construction	1,357	647	2,004	1,797	112	95	2,004
Residential mortgages	937	1	938	869	28	41	938
Other personal	79	141	220	209	8	3	220
	6,399	2,145	8,544	6,773	1,213	558	8,544

Aged analysis of contractually past due loans and advances to customers

The following table shows an aged analysis of contractually past due loans and advances to customers by industry sector analysed by ECL staging at 31 December 2022 and 2021.

At amortised cost

					2022
	1-30 days	**31-60 days**	**61-90 days**	**91 + days**	**Total**
Industry sector	**£m**	**£m**	**£m**	**£m**	**£m**
Non-property business:					
Agriculture	**1**	**—**	**—**	**—**	**1**
Energy	**15**	**—**	**—**	**—**	**15**
Manufacturing	**1**	**1**	**—**	**1**	**3**
Distribution	**45**	**3**	**—**	**7**	**55**
Other services	**6**	**1**	**—**	**13**	**20**
Property and construction	**48**	**11**	**14**	**27**	**100**
Residential mortgages	**6**	**1**	**2**	**15**	**24**
Other personal	**1**	**—**	**—**	**1**	**2**
Total gross carrying amount	**123**	**17**	**16**	**64**	**220**
Asset quality					
Stage 1	**36**	**—**	**—**	**—**	**36**
Stage 2	**51**	**12**	**1**	**—**	**64**
Stage 3	**36**	**5**	**15**	**64**	**120**
	123	**17**	**16**	**64**	**220**
As a percentage of total gross loans	**%**	**%**	**%**	**%**	**%**
	2.0	**—**	**—**	**1.0**	**4.0**

Notes to the financial statements

At amortised cost

					2021
	1-30 days	31-60 days	61-90 days	91 + days	Total
Industry sector	£m	£m	£m	£m	£m
Non-property business:					
Agriculture	1	—	—	—	1
Manufacturing	1	—	—	2	3
Distribution	19	1	4	20	44
Financial	—	—	—	1	1
Other services	13	9	—	15	37
Property and construction	16	1	2	27	46
Residential mortgages	5	1	—	18	24
Other personal	1	—	—	1	2
Total gross carrying amount	56	12	6	84	158
Asset quality					
Stage 1	18	—	—	—	18
Stage 2	21	3	1	—	25
Stage 3	17	9	5	84	115
	56	12	6	84	158
As a percentage of total gross loans	**%**	**%**	**%**	**%**	**%**
	0.9	0.2	0.1	1.3	2.5

Notes to the financial statements

(h) Gross loans and ECL movements

The following tables set out the movements in the gross carrying amount and ECL allowance for loans and advances to customers by ECL staging between 1 January 2022 and 31 December 2022 and the corresponding movements between 1 January 2021 and 31 December 2021.

Accounts that triggered movements between Stage 1 and Stage 2 as a result of failing/curing a quantitative measure only (as disclosed on page 107) and that subsequently reverted within the year to their original stage, are excluded from 'Transferred from Stage 1 to Stage 2' and 'Transferred from Stage 2 to Stage 1'. AIB UK Group believes this presentation aids the understanding of the underlying credit migration.

Gross carrying amount movements[1]

	AIB UK Group			
	2022			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
At 1 January	**4,791**	**1,096**	**512**	**6,399**
Transferred from Stage 1 to Stage 2	**(551)**	**551**	**—**	**—**
Transferred from Stage 2 to Stage 1	**184**	**(184)**	**—**	**—**
Transferred to Stage 3	**(16)**	**(144)**	**160**	**—**
Transferred from Stage 3	**4**	**31**	**(35)**	**—**
New loans originated/top-ups[2]	**1,282**	**—**	**—**	**1,282**
Redemptions/repayments[2][3]	**(1,106)**	**(358)**	**(225)**	**(1,689)**
Interest applied	**158**	**42**	**16**	**216**
Write-offs	**—**	**—**	**(14)**	**(14)**
Derecognised due to disposals	**(131)**	**(80)**	**(91)**	**(302)**
Exchange translation adjustments	**5**	**1**	**2**	**8**
Other movements	**(6)**	**17**	**4**	**15**
At 31 December	**4,614**	**972**	**329**	**5,915**

	AIB UK Group			
	2021			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
At 1 January	5,495	1,180	427	7,102
Transferred from Stage 1 to Stage 2	(1,002)	1,002	—	—
Transferred from Stage 2 to Stage 1	338	(338)	—	—
Transferred to Stage 3	(5)	(331)	336	—
Transferred from Stage 3	5	25	(30)	—
New loans originated/top-ups[2]	1,244	—	—	1,244
Redemptions/repayments[2][3]	(1,231)	(417)	(173)	(1,821)
Interest applied	144	39	13	196
Write-offs	—	—	(14)	(14)
Derecognised due to disposals	(219)	(57)	(50)	(326)
Exchange translation adjustments	(4)	(1)	—	(5)
Other movements	26	(6)	3	23
At 31 December	4,791	1,096	512	6,399

The presentation of loan movements in the above tables differs from the movements table reported in the Financial review on page 18.

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

[2]Includes loans renegotiated.

[3]Includes the net movement on revolving credit facilities.

ECL allowance movements

	AIB UK Group & AIB UK			
	2022			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
At 1 January	**28**	**80**	**93**	**201**
Transferred from Stage 1 to Stage 2	**(5)**	**10**	**—**	**5**
Transferred from Stage 2 to Stage 1	**4**	**(6)**	**—**	**(2)**
Transferred to Stage 3	**—**	**(5)**	**17**	**12**
Transferred from Stage 3	**—**	**3**	**(7)**	**(4)**
Net re-measurement	**(7)**	**(16)**	**(13)**	**(36)**
New loans originated/top-ups	**6**	**—**	**—**	**6**
Redemptions/repayments	**(3)**	**(9)**	**—**	**(12)**
Impact of model and overlay changes	**12**	**22**	**32**	**66**
Impact of credit or economic risk parameters	**2**	**9**	**(1)**	**10**
Income statement net credit impairment charge	**9**	**8**	**28**	**45**
Write-offs	**—**	**—**	**(14)**	**(14)**
Derecognised due to disposals	**(1)**	**(2)**	**(32)**	**(35)**
Other movements	**(3)**	**(4)**	**7**	**—**
At 31 December	**33**	**82**	**82**	**197**

	AIB UK Group & AIB UK			
	2021			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
At 1 January	43	98	104	245
Transferred from Stage 1 to Stage 2	(13)	40	—	27
Transferred from Stage 2 to Stage 1	6	(7)	—	(1)
Transferred to Stage 3	—	(24)	55	31
Transferred from Stage 3	1	2	(4)	(1)
Net re-measurement	25	45	(25)	45
New loans originated/top-ups	5	—	—	5
Redemptions/repayments	(4)	(5)	—	(9)
Impact of model and overlay changes	(19)	(42)	1	(60)
Impact of credit or economic risk parameters	(14)	(26)	(3)	(43)
Income statement net credit impairment (writeback)/ charge	(13)	(17)	24	(6)
Write-offs	—	—	(14)	(14)
Derecognised due to disposals	(2)	(1)	(21)	(24)
At 31 December	28	80	93	201

Notes to the financial statements

(i) Movements in off-balance sheet exposures

The following tables set out the movements in the nominal amount and ECL allowance for off-balance sheet exposures by ECL staging for the year to 31 December 2022 and 2021:

Nominal amount movements

	AIB UK Group & AIB UK			
				2022
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	£m	**£m**	**£m**	**£m**
At 1 January	**1,979**	**121**	**45**	**2,145**
Transferred from Stage 1 to Stage 2	**(72)**	**72**	**—**	**—**
Transferred from Stage 2 to Stage 1	**24**	**(24)**	**—**	**—**
Transferred to Stage 3	**(1)**	**(3)**	**4**	**—**
Transferred from Stage 3	**5**	**1**	**(6)**	**—**
Net movement	**212**	**(8)**	**(28)**	**176**
At 31 December	**2,147**	**159**	**15**	**2,321**

	AIB UK Group & AIB UK			
				2021
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
At 1 January	2,052	143	38	2,233
Transferred from Stage 1 to Stage 2	(50)	50	—	—
Transferred from Stage 2 to Stage 1	65	(65)	—	—
Transferred to Stage 3	(4)	(2)	6	—
Transferred from Stage 3	—	1	(1)	—
Net movement	(84)	(6)	2	(88)
At 31 December	1,979	121	45	2,145

ECL allowance movements

	AIB UK Group & AIB UK			
				2022
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	£m	**£m**	**£m**	**£m**
At 1 January	**5**	**3**	**3**	**11**
Transferred from Stage 1 to Stage 2	**(1)**	**4**	**—**	**3**
Transferred from Stage 2 to Stage 1	**—**	**(3)**	**—**	**(3)**
Transferred to Stage 3	**—**	**(1)**	**—**	**(1)**
Transferred from Stage 3	**—**	**1**	**—**	**1**
Net re-measurement	**(1)**	**(1)**	**—**	**(2)**
Net income statement credit	**(2)**	**—**	**—**	**(2)**
Other movements	**1**	**(1)**	**—**	**—**
At 31 December	**4**	**2**	**3**	**9**

	AIB UK Group & AIB UK			
	2021			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
At 1 January	4	2	4	10
Transferred from Stage 1 to Stage 2	(1)	4	—	3
Transferred from Stage 2 to Stage 1	1	(3)	—	(2)
Transferred to Stage 3	—	(1)	1	—
Transferred from Stage 3	—	—	—	—
Net re-measurement	1	1	(2)	—
Net income statement charge/(credit)	1	1	(1)	1
Other movements	—	—	—	—
At 31 December	5	3	3	11

(j) Credit ratings of contingent liabilities and commitments

The internal credit ratings of contingent liabilities and commitments are set out in the following table:

	2022	2021
	£m	£m
Strong	**1,898**	1,558
Satisfactory	**356**	470
Criticised watch	**45**	50
Criticised recovery	**9**	23
Default	**13**	44
	2,321	2,145

(k) Collateral held

Credit risk mitigation may include a requirement for AIB UK Group to obtain collateral in support of its lending activities when deemed appropriate and has a series of policies and procedures in place for the assessment, valuation and taking of such collateral. In some circumstances, depending on the customers standing and/or the nature of the product, AIB UK Group may lend unsecured.

Where collateral or guarantees are required, they are usually taken as a secondary source of repayment in the event of the borrower's default. AIB UK Group maintains policies which detail the acceptability of specific classes of collateral.

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

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

For non-mortgage/non-property lending, where collateral is taken, it will typically include a charge over the business assets such as inventory and accounts receivables. In some cases, a charge over property collateral or a personal guarantee supported by a lien over personal assets may also be taken.

Notes to the financial statements

Write-offs
The contractual amount outstanding of loans written-off during the year that are subject to enforcement activity amounted to £0.01m (2021: £0.1m) which includes both full and partial write-offs. Total cumulative non-contracted loans written-off at 31 December 2022 amounted to £5m (2021: £6m).

(l) Repossessions
The number (stock) of repossessions of residential mortgages at 31 December 2022 is 3 (2021: 3), the balance outstanding is £0.5m (2021: £0.2m).

In respect of retail portfolios, AIB UK Group does not take physical possession of properties or other assets held as collateral. To settle indebtedness, it uses external agents to realise the value as soon as practicable. Any surplus funds are dealt with in accordance with appropriate insolvency regulations.

(m) Forbearance
Forbearance occurs when a customer is granted a temporary or permanent concession or an agreed change to the existing contracted terms of a loan for reasons relating to the actual or apparent financial stress or distress of that customer. A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable to meet their loans to AIB UK Group in compliance with the existing agreed contracted terms and conditions. Modifications to the original contract can be of a temporary or permanent nature.

AIB UK Group offers support by way of forbearance arrangements to customers in financial difficulty in both the commercial and retail mortgage portfolios. Forbearance support is provided with due care to achieve a beneficial impact for both AIB UK Group and the customer in that it can improve collection opportunities, reduce repossessions and lower realised losses. AIB UK Group considers requests from customers who are experiencing cash flow difficulties on a case by case basis in line with the Parent Group's Forbearance Policy and relevant procedures.

A request for forbearance is a trigger event for AIB UK Group to undertake an assessment of the customer's financial circumstances prior to any decision to grant a forbearance measure. This may result in the downgrading of the credit grade assigned, an increase in the expected credit loss and will also be considered as a potential impairment indicator, whether the forbearance proposal is agreed to or not. Facilities to which forbearance has been applied continue to be classified as forborne until an appropriate probation period has passed.

Commercial forbearance
A commercial forbearance measure occurs when AIB UK Group, for reasons relating to the actual or apparent financial stress of a borrower, grants a concession or modification to the original contractual terms to that borrower, which would otherwise not be justified, with a view to receiving more sustainable repayments and improved likelihood of ultimate repayment. Types of commercial forbearance include temporary measures (such as interest only and capital and interest moratorium) and permanent measures (such as term extension and arrears capitalisation).

Residential mortgages forbearance
It is AIB UK Group's policy to enable customers who are experiencing temporary financial difficulties to stay in their property where possible.

If a mortgage customer notifies AIB UK Group of current or likely future financial difficulties which could lead to arrears/ impairment, AIB UK Group undertakes a full financial review of the customer's circumstances and submits any proposal for forbearance to its Retail FSG team.

Payment break options introduced specifically to support customers in response to COVID-19 and which met the definition of general payment moratoria as outlined in the relevant EBA Guidelines are not reported as forbearance measures.

To be acceptable, any forbearance proposals need to reasonably demonstrate that the mortgage borrowing will be sustainable over its full life. Consideration is given when forbearance is requested as to whether the level of risk merits provisioning for impairment.

Forbearance options may include:
- a period/further period of interest only payments;
- in exceptional circumstances, a moratorium of capital and interest mortgage payments where clear resumption of full repayment/clearance is evident within an acceptable timescale;
- an agreed contracted repayment amount for a defined period;
- a term extension;
- capitalisation of arrears, where no other option is feasible and the customer has met the requirements to allow this approach to be put in place.

AIB UK Group will agree the term for such forbearance proposals on a case by case basis, at the end of which payments should return to full capital and interest repayment. Loans in respect of declined applications for forbearance will remain in line with existing contracted terms.

In cases where forbearance is declined, but the customer offers a monthly contracted repayment this may be considered on a temporary basis, however, normal default procedures will continue to be applied.

If at the end of an agreed period of forbearance, the customer cannot return to full capital and interest repayment and arrears become a feature, the case will continue to be managed by the Retail FSG team. In exceptional cases only, the period of forbearance may be extended beyond the originally agreed forbearance term.

The following table sets out the internal credit ratings and ECL staging of forborne loans and advances to customers at amortised cost at 31 December 2022 and 2021:

					2022
	Forborne loans and advances to customers at amortised cost				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
	£m	£m	£m	£m	£m
Analysed by forbearance type					
Temporary forbearance	10	—	19	55	84 [1]
Permanent forbearance	4	—	66	440	510 [2]
Total	14	—	85	495	594
Analysed by internal credit ratings					
Strong/satisfactory:					
Total	—	—	—	—	—
Criticised:					
Stage 2	4	—	29	328	361
Total	4	—	29	328	361
Non-performing:					
Stage 3	10	—	56	167	233
Total	10	—	56	167	233
Gross carrying amount of forborne loans and advances to customers at amortised cost	14	—	85	495	594
ECL allowance	(1)	—	(20)	(96)	(117)
Carrying amount of forborne loans and advances to customers at amortised cost	13	—	65	399	477

[1]Of which: interest only £30m, payment moratorium £28m, reduced payment £8m.
[2]Of which: amendment to or non-enforcement of financial covenant £207m, restructure £145m, arrears capitalisation and term extension £135m.

	2021				
	Forborne loans and advances to customers at amortised cost				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
	£m	£m	£m	£m	£m
Analysed by forbearance type					
Temporary forbearance	16	—	28	64	108 (1)
Permanent forbearance	6	1	67	628	702 (2)
Total	22	1	95	692	810
Analysed by internal credit ratings					
Strong/satisfactory:					
Total	—	—	—	—	—
Criticised:					
Stage 2	9	—	21	405	435
Total	9	—	21	405	435
Non-performing:					
Stage 3	13	1	74	287	375
Total	13	1	74	287	375
Gross carrying amount of forborne loans and advances to customers at amortised cost	22	1	95	692	810
ECL allowance	(1)	—	(11)	(96)	(108)
Carrying amount of forborne loans and advances to customers at amortised cost	21	1	84	596	702

(1)Of which: interest only £87m, reduced payment £11m, payment moratorium £11m.

(2)Of which: arrears capitalisation and term extension £157m, restructure £89m, amendment to or non-enforcement of financial covenant £78m.

22. Investment securities

	AIB UK Group & AIB UK	
	2022	2021
	£m	£m
Equity securities		
Equity shares (unlisted) - measured at FVTPL	**50**	40
Total equity securities	**50**	40
Total investment securities	**50**	40

The estimates involved in the assessment of the fair value of investment securities are described in note 2: Critical accounting judgements and estimates. The sensitivity of the valuation of investment securities to using reasonably possible alternative assumptions in the fair value calculation at 31 December 2022 and 2021 is set out in note 38: Fair value of financial instruments.

Notes to the financial statements

23. Investments in group undertakings

	AIB UK	
	2022	2021
	£m	£m
At 1 January	**1**	1
At 31 December	**1**	1

The subsidiary undertakings at 31 December 2022:

Subsidiary name	Year end	Nature of business	Place of incorporation	Registered office
First Trust Financial Services Limited	31 December	Financial services	Northern Ireland	92 Ann Street, Belfast, BT1 3HH, Northern Ireland.
First Trust Financial Planning Limited	31 December	Financial services	Northern Ireland	92 Ann Street, Belfast, BT1 3HH, Northern Ireland.
AIB Joint Ventures Limited	31 December	Investment	England and Wales	St. Helen's, 1 Undershaft, London, EC3A 8AB, England.
First Trust Leasing No.4 (Northern Ireland) Limited	31 December	Leasing	Northern Ireland	92 Ann Street, Belfast, BT1 3HH, Northern Ireland.
AIB Pensions UK Limited	31 December	Dormant company	England and Wales	First Floor, Trident House, 42-48 Victoria Street, St. Albans, Hertfordshire, AL1 3HZ, England.

AIB UK holds 100% of the ordinary shares of the companies listed, with the exception of AIB Pensions UK Limited, in which it holds 70% of the ordinary shares. AIB Pensions UK Limited has availed of the exemption from audit under section 480 of the Companies Act 2006.

At 31 December 2021, AIB UK held 100% of the ordinary shares of Aberco Limited, which had ceased trading and was dissolved on 4 January 2022.

First Trust Financial Planning Limited and First Trust Leasing No.4 (Northern Ireland) Limited ceased trading and were dissolved on 14 February 2023.

As at 31 December 2022, AIB UK Group held no investments in associated undertakings (2021: nil), accounted for in accordance with IAS 28 *Investments in Associates*.

The principal activities of AIB UK and its subsidiaries (AIB UK Group) and the nature of its operations are set out in the Strategic report on page 4.

Dividends from subsidiary undertakings
In 2022, a dividend of £0.2m (2021: £nil) was received from First Trust Financial Planning Limited and a dividend of £0.7m (2021: £3m) was received from First Trust Leasing No.4 (Northern Ireland) Limited.

Impairment of subsidiary undertakings
There was an impairment charge on the investment in First Trust Financial Planning Limited of £0.2m (2021: £nil) and First Trust Leasing No.4 (Northern Ireland) Limited of £0.1m in 2022 (2021: £nil).

24. Intangible assets

	AIB UK Group & AIB UK			
	2022			
	Software externally purchased £m	Software internally generated £m	Software under construction £m	Total £m
Cost				
At 1 January	2	45	2	49
Additions	—	2	—	2
Transfers in/(out)	—	1	(1)	—
Amounts written-off[(1)]	(1)	(2)	—	(3)
At 31 December	1	46	1	48
Amortisation/impairment				
At 1 January	2	26	—	28
Amortisation for the year	—	8	—	8
Amounts written-off[(1)]	(1)	(2)	—	(3)
At 31 December	1	32	—	33
Carrying value at 31 December	—	14	1	15

	AIB UK Group & AIB UK			
	2021			
	Software externally purchased £m	Software internally generated £m	Software under construction £m	Total £m
Cost				
At 1 January	2	50	1	53
Additions	—	3	1	4
Amounts written off[(1)]	—	(8)	—	(8)
At 31 December	2	45	2	49
Amortisation/impairment				
At 1 January	2	26	—	28
Amortisation for the year	—	8	—	8
Amounts written off[(1)]	—	(8)	—	(8)
At 31 December	2	26	—	28
Carrying value at 31 December	—	19	2	21

[(1)]Relates to assets which are no longer in use with a £nil carrying value.

All intangible assets at 31 December 2022 and 2021 have finite useful lives.

25. Property, plant and equipment

	AIB UK Group and AIB UK				
	2022				
	Owned assets			Leased assets	
	Property		Equipment	Right-of-use assets	Total
	Freehold	Leasehold under 50 years		Property	
	£m	£m	£m	£m	£m
Cost					
At 1 January	18	6	16	25	65
Additions	3	—	1	—	4
Transfers to held for sale	(3)	—	(2)	—	(5)
Remeasurements	—	—	—	(1)	(1)
Early termination/maturities	—	—	—	(10)	(10)
Amounts written-off[(1)]	—	(2)	(5)	—	(7)
At 31 December	18	4	10	14	46
Depreciation and impairment					
At 1 January	2	4	12	16	34
Depreciation charge for the year	—	1	—	2	3
Impairment charge for the year[(2)]	1	—	—	1	2
Transfers to held for sale	(2)	—	(1)	—	(3)
Early termination/maturities	—	—	—	(10)	(10)
Amounts written-off[(1)]	—	(2)	(5)	—	(7)
At 31 December	1	3	6	9	19
Carrying value at 31 December	17	1	4	5	27

[(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 income statement.

The carrying value of property occupied by AIB UK Group for its own activities at 31 December 2022 was £11m (2021: £18m) in relation to owned assets and £5m in relation to right-of-use assets (2021: £9m). Property leased to others by AIB UK Group had a carrying value of £7m (2021: £nil)

Four NI and one GB branch properties were sold during 2022 (2021: nil) for a total profit of £2m (2021: £nil) (note 9).

The impairment charge of £2m relates to properties, and to equipment inside them, that were vacated during the year or will be vacated in the foreseeable future as part of the restructure of the business.

The accounting policy on the impairment of property, plant and equipment can be found in note 1.24.

	AIB UK Group and AIB UK						
							2021
	Owned assets					Leased assets	Total
	Property			Assets under construction	Equipment	Right-of-use assets	
	Freehold	Long leasehold	Leasehold under 50 years			Property	
	£m	£m	£m	£m	£m	£m	£m
Cost							
At 1 January	15	1	8	2	18	26	70
Transfers in/(out)	1	—	—	(2)	1	—	—
Additions	3	—	—	—	—	4	7
Remeasurements	—	—	—	—	—	(4)	(4)
Amounts written-off[(1)]	(1)	(1)	(2)	—	(3)	(1)	(8)
At 31 December	18	—	6	—	16	25	65
Depreciation and impairment							
At 1 January	2	1	4	—	13	11	31
Depreciation charge for the year	1	—	1	—	1	3	6
Impairment charge for the year[(2)]	—	—	1	—	1	3	5
Amounts written-off[(1)]	(1)	(1)	(2)	—	(3)	(1)	(8)
At 31 December	2	—	4	—	12	16	34
Carrying value at 31 December	16	—	2	—	4	9	31

[(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 income statement.

The impairment charge of £5m relates to properties, and to equipment inside them, that were vacated during the year or will be vacated in the foreseeable future as part of the restructure of the business.

Future capital expenditure

Future capital expenditure relates to both property, plant and equipment and intangible assets. There is £nil (2021: £nil) estimated outstanding commitments for capital expenditure not provided for in the financial statements.

Capital expenditure authorised but not yet contracted for is £1.0m (2021: £0.7m).

Leased Assets

Property leases

AIB UK Group leases property for its offices and retail branch outlets. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Most of these leases carry statutory renewal rights, or include an option to renew the lease for an additional period after the end of the contract term. Where AIB UK Group is likely to exercise these options, this has been taken into account in determining the lease liability and the right-of-use asset.

Finance lease commitments

There are a small number of obligations under finance leases where AIB UK Group and AIB UK is the lessee. Both the total future payments and the total present value are de minimis.

Lease liabilities

A maturity analysis of lease liabilities is shown in note 31.

Notes to the financial statements

26. Other assets

	AIB UK Group & AIB UK	
	2022	2021
	£m	£m
Proceeds due from disposal of loan portfolio (note 15)[1]	**34**	—
Items in transit	**11**	8
Items in course of collection	**4**	3
Other debtors	**6**	6
	55	17

[1] ECL - Nil.

27. Deferred taxation

	AIB UK Group & AIB UK	
	2022	2021
	£m	£m
Deferred tax assets		
Unutilised tax losses	**166**	164
Cash flow hedges	**81**	11
Other	**7**	12
Total gross deferred tax assets	**254**	187
Deferred tax liabilities		
Retirement benefits	**(15)**	(52)
Total gross deferred tax liabilities	**(15)**	(52)
Net deferred tax assets	**239**	135
Represented on the statement of financial position:		
Deferred tax assets	**241**	148
Deferred tax liabilities	**(2)**	(13)

Analysis of movements in deferred taxation

	2022	2021
	£m	£m
At 1 January	**135**	38
Deferred tax through other comprehensive income	**107**	9
Income statement - continuing operations (note 13)	**(3)**	88
At 31 December	**239**	135

AIB UK Group's accounting policy for deferred tax is set out in note 1.11.

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2021: 33%), except for deferred tax on pre-2015 unutilised tax losses which is not liable to the banking surcharge and is recognised at the relevant tax rate each year. The UK's main rate of corporation tax will increase from 19% to 25% and the banking surcharge will reduce from 8% to 3% with effect from 1 April 2023. This change to the main corporation tax rate was introduced by the Finance Act 2021 and the change to the banking surcharge rate was introduced by the Finance Act 2022 which was enacted on 24 February 2022. The deferred tax asset at 31 December 2022 has been calculated based on an aggregated rate of 28%, apart from the deferred tax asset on the pre-2015 unutilised tax losses, which is calculated using a rate of 23.5% for 2023 and 25% for subsequent years.

Notes to the financial statements

Deferred tax assets are recognised for unused tax losses to the extent it is probable there will be sufficient future taxable profits against which the losses can be used. It requires significant judgements to be made about the projection of long-term future profitability and the period over which recovery extends.

In assessing future profitability, the Board has considered a range of positive and negative evidence for this purpose. The principal positive evidence and factors include:

– AIB UK Group returned to profitability in 2021, generating a pre-tax profit of £89m, and a £138m pre-tax profit in 2022;
– AIB UK Group has achieved pre-tax profits each year from 2013 to 2019 and has a sustained history of long-term positive earnings prior to pre-tax losses, incurred in 2010-2012, and prior to 2020. The losses in 2010-2012 were driven by the financial crash and the loss in 2020 was due to higher ECLs during the COVID-19 pandemic which are not expected to affect future profitability;
– AIB UK Group implemented a revised strategy and reorganised structure during 2021 to focus on delivery. Further parts of the strategy achieved in 2022 included the sale of the second tranche of AIB GB SME loans, the sale of a portfolio of non-performing loans, the managed exit of approximately half of the AIB GB SME customer balances and a further exit of 101 staff under the voluntary severance programme;
– increased profitability forecast for AIB UK Group for 2023 and 2024; and
– the absence of any expiry dates for UK tax losses.

Against this, there are a number of uncertainties inherent in any long-term financial assumptions and projections and other negative evidence, including:

– AIB UK Group incurred a pre-tax loss of £105m in 2020;
– uncertainty continues to exist around the long term impact of the current geopolitical landscape;
– the interest rate environment and planned new lending under the revised strategy may not increase within the timeframes and amounts currently forecast;
– the difficulty of accurately predicting future revenues; and
– the absolute level of the deferred tax asset compared to the level of equity and the quantum of profits required to utilise the asset.

The Board has considered all these factors and has determined that recognition of the AIB UK deferred tax asset should continue to be restricted to the amount projected to be realised within fifteen years (2021: fifteen years). The Board has considered the plan for 2023-2025 and the stage of embedding the AIB UK strategy at 31 December 2022 and has based the forecast taxable profits on the three years of the AIB UK Group Business Plan with 2% growth assumed for 2026 and 2027 and minimal growth forecast for the longer term. As a result, an amount of £552m (2021: £558m) of deferred tax assets relating to unutilised tax losses has not been recognised in the financial statements.

Sensitivity of the deferred tax asset to changes in assumptions

The measurement of the deferred tax asset is dependent on judgement as to the period of recoverability and estimates of projected future income. If future profits or subsequent forecasts differ from current forecasts an adjustment may be required to the deferred tax asset. This could result in a material impact to the income statement in future years. The sensitivity of the deferred tax asset on unutilised tax losses to changes in forecasts and assumptions was considered.

– Change in profit forecast assumption: If the profitability forecast for 2023 - 2025 was assumed to be 5% higher (or lower) than planned, the deferred tax asset balance at 31 December 2022 would increase (or decrease) by £9m to £175m (or £157m).
– Change in profit growth assumption: 0% growth in profits has been assumed from 2028 onwards. If this assumption was changed to 2% growth for all years from 2028 to 2037, while maintaining a 15 year restriction and other base assumptions, the deferred tax asset balance at 31 December 2022 would increase by £14m to £180m.
– No restriction on the period of recognition: If no restriction to the period of recognition of the deferred tax asset on losses was applied, and no change made to the other base assumptions, the unutilised tax losses would be forecast to be fully utilised after 64 years from 31 December 2022. An increase (or decrease) of five years in the recognition period from the current assumption of fifteen years would increase (or decrease) the deferred tax asset at 31 December 2022 by £57m.

The deferred tax asset due after more than one year is £156m (2021: £160m).

28. Retirement benefits

AIB UK Group operates a defined contribution scheme and a funded defined benefit scheme for employees.

Defined contribution scheme

Employees who joined AIB UK Group after December 1997 joined on a defined contribution basis with an enhanced matched contribution scheme being available to them from 1 January 2009. When the UK defined benefit scheme closed to future accrual on 31 December 2013, all eligible employees from the defined benefit scheme became members of the UK defined contribution scheme. The defined contribution scheme has a standard employer contribution rate of 10% plus an additional matched employer contribution, subject to total limits on age bands of 12%, 15% or 18%. For members who joined between December 1997 and 1 January 2009, and who did not opt to join the enhanced matched contribution scheme, the standard employer contribution rate is 5%.

Defined contribution members accrue benefits under S2P (the State Second Pension) and AIB UK Group also pays an amount for Permanent Health Insurance in respect of these members.

The cost of the defined contribution scheme for 2022 was £6m (2021: £8m) and is included in operating expenses (note 10).

Defined benefit scheme

The UK Scheme was closed to new members from December 1997 and closed to future accrual for all existing employees from 31 December 2013. Retirement benefits for the UK Scheme are calculated by reference to service and pensionable salary at 31 December 2013. Benefits payable upon retirement are based on the average pensionable salary over the five years to 31 December 2013 and are revalued up to retirement date in line with the requirements to revalue deferred benefits. The weighted average duration of the UK Scheme at 31 December 2022 is 13 years (2021: 19 years).

(a) Governance

The trustees of the UK Scheme are ultimately responsible for the governance of the scheme.

(b) Risks

The risks associated with the UK Scheme include:

- Market risk - where the value of the pension scheme assets may decline or their investment return may reduce due to market movements. This risk was reduced in December 2019 when the UK Scheme investments were replaced with two insurance policies.
- Actuarial risk - where the value of the UK Scheme liabilities may increase due to changes in the actuarial assumptions. This includes financial assumptions, such as discount rates and inflation, and demographic assumptions on life expectancy.

AIB UK Group significantly reduced its exposure to risks from the UK Scheme through new funding arrangements that were put in place in December 2019.

(c) Valuations

Independent actuarial valuations of the defined benefit scheme are carried out on a triennial basis by Mercer Limited, actuaries and consultants. The most recent valuation was carried out as at 31 December 2020 and was completed in March 2022. The funding plan from the previous 2017 triennial valuation was replaced with a new funding plan in December 2019 following the purchase of two insurance policies. See below for details.

(d) Funding arrangements

Insurance policies

In December 2019, the trustees purchased two insurance policies to reduce the risks associated with the UK Scheme. The policies comprised of:

- a Pensioner Buy-In ('PBI') to remove all identified financial and demographic risks attaching to current UK pensioners; and
- an Assured Payment Policy ('APP') to remove the majority of inflation and interest rate risk for UK deferred pensioners, with an option to convert part to a buy-in annually. The intention is to have converted the APP to a full buy-in by 2024, thus removing exposure to the risks not covered by the APP.

As the PBI policy for current pensioners exactly matches the amount and timing of the benefits covered, it has a value equal to the scheme liabilities. The APP for deferred pensioners does not provide sufficient match in terms of amount and timing of benefits payable under the UK Scheme, so it is measured at fair value. Further pensioners and deferred members were added to the PBI policy during 2022, which resulted in a write down of the value of scheme assets through OCI.

Asset backed funding

In October 2013, the Parent Group agreed with the trustees of the UK Scheme a restructure of the funding of the deficit in the UK Scheme through an asset backed funding plan. The Parent Group established a pension funding partnership, AIB PFP Scottish Limited Partnership ('the SLP'), to which a portfolio of loans was transferred from another Parent Group entity, UKLM, for the purpose of ring-fencing the repayments on these loans to fund future deficit payments of the UK Scheme. The assets ring-fenced for this purpose entitled the UK Scheme to an expected income payable quarterly from 1 January 2016 to 31 December 2032, with a potential termination payment in 2032 of up to £60m.

The general partner in the partnership, AIB PFP (General Partner) Limited, which is an indirect subsidiary of AIB plc, has controlling power over the partnership. AIB UK Group has a junior interest in the SLP to enable payments from the SLP to the UK Scheme to be paid through the Company.

The majority of the risks and rewards are borne by the Parent Group as, while the UK Scheme has a priority right to the cash flows from the partnership, it is expected that the majority of and any variability in these cash flows will be recovered by the Parent 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 Parent Group has determined that the SLP should be consolidated into the Parent Group.

(e) Contributions

The new funding plan agreed in December 2019 entitles the UK Scheme to annual contributions of £19m per annum for five years from 1 January 2020 to 31 December 2024, with a final contribution of £31m also payable in 2024. Part of these contributions is being utilised to convert the deferred APP to a buy-in each year, with full buy-in expected to be achieved by the end of 2024.

The SLP remains in place to fund the contributions required under the new agreements.

(f) Administration expenses

From 1 May 2019 the UK Scheme administration expenses have been paid from the scheme assets. A £2m charge (2021: £2m) is included in the valuation of the UK Scheme assets and recognised in Pension costs within operating expenses (note 10).

(g) Past service costs

There were no past service costs in the years ended 31 December 2022 and 2021.

(h) Benefits paid

The UK Scheme allows participants an option for the payment before retirement of a lump sum transfer from UK Scheme assets to another pension arrangement of the individual's choice, in full satisfaction of the retirement benefit entitlement under the UK Scheme. During 2022 £6m (2021: £8m) of the benefits paid from the UK Scheme related to lump sum transfer values taken under the terms of the UK Scheme.

(i) Financial assumptions

The following table summarises the financial assumptions adopted for the UK Scheme in the preparation of these financial statements:

As at 31 December	2022 %	2021 %
Rate of increase of pensions in payment	**3.1**	3.3
Discount rate	**5.0**	1.8
Inflation assumptions		
– Retail Price Index	**3.1**	3.3
– Consumer Price Index	**2.6**	2.7

The discount rate used to value the liability is set by reference to high quality AA corporate bond yields, in accordance with IAS 19.

(j) Demographic assumptions

The mortality tables used for 2022 and 2021 are based on data collected by the Continuous Mortality Investigation in the previous year respectively. An updated future mortality projection model was adopted from 2015 and the assumptions include sufficient allowance for future improvements in mortality rates.

The life expectancies underlying the value of the scheme liabilities for the UK Scheme at 31 December 2022 and 2021 are as set out below.

	Retiring today at age 63		Retiring at age 63, currently aged 53	
Life expectancy from age 63	**2022**	2021	**2022**	2021
Male	**25.0**	25.0	**25.3**	25.4
Female	**26.8**	26.8	**27.8**	27.8

(k) Movement in defined benefit obligation and scheme assets

The following table sets out the movement in the defined benefit obligation and UK Scheme assets during 2022 and 2021.

	2022			2021		
	Defined benefit obligation	**Fair value of scheme assets**	**Net defined benefit (liability)/ asset**	Defined benefit obligation	Fair value of scheme assets	Net defined benefit (liability)/ asset
	£m	**£m**	**£m**	£m	£m	£m
At 1 January	**(943)**	**1,104**	**161**	(971)	1,113	142
Included in income statement						
Interest (cost)/income	**(17)**	**20**	**3**	(13)	15	2
Administration expenses	**—**	**(2)**	**(2)**	—	(2)	(2)
	(17)	**18**	**1**	(13)	13	—
Included in other comprehensive income						
Remeasurements gain/(loss):						
- Actuarial gain/(loss) arising from:						
- Experience adjustments	**(81)**	**—**	**(81)**	(6)	—	(6)
- Changes in demographic assumptions	**15**	**—**	**15**	3	—	3
- Changes in financial assumptions	**382**	**—**	**382**	4	—	4
- Return on scheme assets excluding SLP	**—**	**(368)**	**(368)**	—	(5)	(5)
- Contribution of asset from SLP to scheme assets	**—**	**19**	**19**	—	19	19
- Return on SLP assets	**—**	**(72)**	**(72)**	—	4	4
	316	**(421)**	**(105)**	1	18	19
Other						
Benefits paid	**37**	**(37)**	**—**	40	(40)	—
At 31 December	**(607)**	**664**	**57**	(943)	1,104	161

Notes to the financial statements

(l) Fair value of plan assets

The following table sets out the fair value of the assets held by the UK Pension Scheme.

	2022		2021	
	Value	Plan assets	Value	Plan assets
	£m	%	£m	%
Pensioner buy-in	537	81	735	67
Assured payment policy	69	10	237	21
Cash	4	1	8	1
SLP assets	54	8	124	11
Fair value of scheme assets at 31 December	664	100	1,104	100
Actuarial value of liability	(607)		(943)	
Surplus in scheme	57		161	
Related deferred tax liability (note 27)	(15)		(52)	
Net pension asset	42		109	

The PBI policy for current pensioners exactly matches the amount and timing of the benefits covered, therefore, its value is equal to the applicable scheme liabilities. The APP for deferred pensioners does not provide sufficient match so it is measured at fair value. The SLP asset recognised by the UK Scheme at 31 December 2022 is management's best estimate of the valuation based on a deterministic model valuation provided by the trustees' investment consultants. The APP and SLP assets do not have a quoted price in an active market. There are no transferable financial instruments or property assets used by AIB UK Group included in the pension scheme assets.

Deferred taxation is provided on the defined pension scheme surplus at the rate of 28% (2021: 33%) being the expected corporation tax rate of 25% plus the UK bank surcharge of 3%.

Excluding the benefit of the UK Scheme's recognition of the SLP assets, the net defined benefit asset at 31 December 2022 was £3m (2021: £37m).

(m) Sensitivity of assumptions

Defined benefit obligation

The following table shows the sensitivity of the defined benefit obligation valuation of £607m at 31 December 2022 to changes in the key financial and demographic assumptions. The changes in assumptions have been considered independently of each other.

	Increase/(decrease) in defined benefit obligation of £607m	
	if increase in assumption	if decrease in assumption
Assumption	£m	£m
Discount rate (0.25% movement)	(20)	20
Inflation (0.25% movement)	19	(19)
Mortality (1 year movement)	20	(19)

Assured payment policy

The following table shows the sensitivity of the APP valuation of £69m at 31 December 2022 to changes in the discount rate.

	Increase/(decrease) in APP valuation of £69m	
	if increase in assumption	if decrease in assumption
Assumption	£m	£m
Discount rate (0.25% movement)	(4)	4

Notes to the financial statements

SLP assets

The following table shows the sensitivity of the SLP assets valuation of £54m at 31 December 2022 to changes in the discount rate.

	Increase/(decrease) in SLP valuation of £54m	
	if increase in assumption	if decrease in assumption
Assumption	**£m**	**£m**
Discount rate (0.25% movement)	—	—

29. Deposits by central banks and banks

	AIB UK Group & AIB UK	
	2022	2021
	£m	£m
Central banks		
Borrowings - secured	**252**	250
Banks		
Other borrowings - unsecured	**138**	184
	390	434
Amounts include:		
Due to AIB plc and fellow subsidiaries	**138**	184

Borrowings from central banks includes £250m borrowed from the Bank of England in February 2018 under the Term Funding Scheme, secured against pre-positioned collateral.

At 31 December 2022 and 2021, there were no securities sold under agreements to repurchase.

30. Customer accounts

	AIB UK Group		AIB UK	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Current accounts	**5,299**	7,062	**5,299**	7,062
Demand deposits	**1,672**	1,848	**1,681**	1,858
Time deposits	**1,233**	1,178	**1,233**	1,178
	8,204	10,088	**8,213**	10,098
Amounts include:				
Due to AIB plc and fellow subsidiaries	**13**	43	**22**	53

Notes to the financial statements

31. Lease liabilities

	AIB UK Group & AIB UK	
	2022	2021
	£m	£m
At 31 December	**8**	17
Maturity analysis - contractual undiscounted cash flows:		
Not later than one year	**3**	4
Later than one year and not later than five years	**6**	10
Later than five years	**1**	4
Total undiscounted lease liabilities at end of year	**10**	18

Analysis of movements in lease liabilities

	2022	2021
	£m	£m
At 1 January	**17**	18
Lease payments[1]	**(4)**	(4)
Interest expense[1]	**—**	1
Additions	**—**	3
Early terminations	**(5)**	(1)
At 31 December	**8**	17

[1]Repayment of principal portion of the lease liabilities amounted to £4m (2021: £3m), i.e. lease payments net of interest expense.

32. Other liabilities

	AIB UK Group & AIB UK	
	2022	2021
	£m	£m
Notes in circulation[1]	**36**	80
Items in transit	**7**	26
Amounts due on disposal of loan portfolio	**—**	22
Other creditors	**37**	46
	80	174

[1]The Bank announced in February 2019 its intention to cease issuing banknotes as a local currency in Northern Ireland (under the name of 'First Trust Bank'). Since this announcement the Bank has been withdrawing the banknotes from circulation and the notes ceased to be legal currency at midnight on 30 June 2022.

33. Provisions for liabilities and commitments

	Customer redress	Restructuring	Litigation	Onerous contracts	Property dilapidations	Total
						AIB UK Group
						2022
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Provisions (excluding ECLs on off-balance sheet items)						
	(a)	(b)	(c)	(d)	(e)	
At 1 January 2022	**2**	**17**	**2**	**1**	**1**	**23**
Amounts charged/(released) to the income statement[1]	**2**	**2**	**(1)**	**(1)**	**—**	**2**
Provisions utilised	**—**	**(14)**	**—**	**—**	**—**	**(14)**
At 31 December 2022	**4**	**5**	**1**	**—**	**1**	**11**
ECLs on off-balance sheet items						
At 1 January 2022						11
Net writeback to income statement[2]						(2)
At 31 December 2022						**9**
Total provisions for liabilities and commitments						**20**

	Customer redress	Restructuring	Litigation	Onerous contracts	Property dilapidations	Total
						AIB UK Group
						2021
	£m	£m	£m	£m	£m	£m
Provisions (excluding ECLs on off-balance sheet items)						
	(a)	(b)	(c)	(d)	(e)	
At 1 January 2021	7	25	5	1	1	39
Amounts charged/(released) to the income statement[1]	—	16	(3)	—	—	13
Provisions utilised	(5)	(24)	—	—	—	(29)
At 31 December 2021	2	17	2	1	1	23
ECLs on off-balance sheet items						
At 1 January 2021						10
Net charge to income statement[2]						1
At 31 December 2021						11
Total provisions for liabilities and commitments						34

[1] Included in note 10: Operating expenses and note 3: Interest income.
[2] Included in 'Net credit impairment (charge)/writeback' (note 12).

	AIB UK					
	2022					
	Customer redress	**Restructuring**	**Litigation**	**Onerous contracts**	**Property dilapidations**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Provisions (excluding ECLs on off-balance sheet items)						
	(a)	(b)	(c)	(d)	(e)	
At 1 January 2022	**1**	**17**	**2**	**1**	**1**	**22**
Amounts charged/(released) to the income statement	**3**	**2**	**(1)**	**(1)**	**—**	**3**
Provisions utilised	**—**	**(14)**	**—**	**—**	**—**	**(14)**
At 31 December 2022	**4**	**5**	**1**	**—**	**1**	**11**
ECLs on off-balance sheet items						
At 1 January 2022						11
Net writeback to income statement						(2)
At 31 December 2022						**9**
Total provisions for liabilities and commitments						**20**

	AIB UK					
	2021					
	Customer redress	Restructuring	Litigation	Onerous contracts	Property dilapidations	Total
	£m	£m	£m	£m	£m	£m
Provisions (excluding ECLs on off-balance sheet items)						
	(a)	(b)	(c)	(d)	(e)	
At 1 January 2021	6	25	4	1	1	37
Amounts charged/(released) to the income statement	—	16	(2)	—	—	14
Provisions utilised	(5)	(24)	—	—	—	(29)
At 31 December 2021	1	17	2	1	1	22
ECLs on off-balance sheet items						
At 1 January 2021						10
Net charge to income statement						1
At 31 December 2021						11
Total provisions for liabilities and commitments						33

Notes to the financial statements

Notes

a) A provision is recognised for any obligation arising to refund customers for fees or charges, incurred in previous periods, where it is probable that a refund will be made and the amount can be reliably estimated. Included within customer redress at 31 December 2022 are the following provisions:

PPI provision
AIB UK Group provision for PPI redress claims and associated costs further reduced in 2022 and the remaining provision held as at 31 December 2022 of £0.03m (2021: £0.06m) is expected to be utilised in 2023.

Interest Rate Hedging Products ('IRHP') provision
A provision of £0.1m (2021: £0.1m) remains at 31 December 2022 in respect of redress to customers arising from the IRHP review instigated by FCA in 2012. This provision is expected to be utilised in 2023.

Other customer redress provisions
Further provisions in relation to customer mis-selling, in respect of the sale of investment products, and other potential customer redress issues are held at 31 December 2022. £0.1m (2021: £5m) was utilised during the year in respect of mis-selling claims and legal costs and a net £2m (2021: £nil) charged to the income statement, including a charge of £3m for two customer redress issues identified in 2022. £2m of this provision was charged to interest income in 2022 (2021: £nil). The closing provision of £4m at 31 December 2022 (2021: £2m) is expected to be utilised over the next year.

b) A provision for restructuring costs of £5m, in relation to the implementation of a revised strategy, was held at 31 December 2022 (2021: £17m), of which £2m (2021: £11m) relates to expected costs of termination benefits for staff impacted by the reorganisation. £14m (2021: £24m) of the provision was utilised in 2022. The remaining provision is expected to be utilised in 2023.

c) AIB UK Group has made provision for the cost of a number of legal claims that were outstanding at 31 December 2022. Management believes the amount provided of £1m (2021: £2m) represents the most appropriate estimate of the financial impact of these cases. This provision is reviewed by management regularly and updated for changes to estimates and judgements. The current provision is expected to be utilised over the next three years.

d) The onerous contracts provision at 31 December 2022 of £0.2m (2021: £0.7m) relates to a number of premises that were deemed surplus to requirements and a provision was required for the costs associated with these premises. During 2022 £0.02m (2021: £0.03m) of the remaining onerous lease provision was utilised and £0.5m (2021: £nil) released. The remaining provision is expected to be utilised in 2023.

e) The provision for property dilapidations relates to work that is required to be carried out on exiting certain leasehold properties to put them back to the original or agreed condition. Property dilapidations form part of the ROU asset (note 25), which is depreciated over the term of the lease, and the provision will be used to pay the end of lease obligations when exiting the property. The provision at 31 December 2022 of £1m (2021: £1m) is after the release of £0.2m following the exit from a property during 2022.

ECLs on off-balance sheet items

ECLs on off-balance sheet items consists of ECLs on loan commitments and on financial guarantee contracts as provided for under IFRS 9 *Financial Instruments* and reported within IAS 37 *Provisions for liabilities and commitments*. Loan commitments and guarantees are described and included in contingent liabilities and commitments in note 36 and the internal credit ratings of these liabilities are set out in note 21 (i). The provision at 31 December 2022 of £9m (2021: £11m) consists of ECLs on loan commitments of £7m (2021: £9m) and ECLs on financial guarantee contracts of £2m (2021: £2m). The amount credited to the income statement in 2022 of £2m (2021: £1m charge) relates to ECLs on loan commitments and is included within the net credit impairment charge (note 12).

34. Share capital

	AIB UK Group & AIB UK	
	2022	2021
	£m	£m
Authorised, issued and fully paid ordinary shares of £1 each	2,384	2,384

No ordinary shares were issued in 2022 or 2021.

AIB UK has one class of ordinary shares which carry no right to fixed income.

Other reserves

	AIB UK Group		AIB UK	
	2022	2021	2022	2021
Revaluation reserves	£m	£m	£m	£m
At 1 January	2	2	1	1
Other movement	(1)	—	—	—
At 31 December	1	2	1	1

For details regarding revaluation reserves, refer to note 1.27.

35. Analysis of movements in reserves and other comprehensive income

	AIB UK Group & AIB UK					
			2022			2021
	Gross	Tax	Net	Gross	Tax	Net
	£m	£m	£m	£m	£m	£m
Cash flow hedge reserve						
Amount removed from cash flow hedging reserves and transferred to income statement	13	(4)	9	(11)	4	(7)
Change in fair value recognised in other comprehensive income	(268)	74	(194)	(69)	19	(50)
Total	(255)	70	(185)	(80)	23	(57)
Retained earnings						
Remeasurement of defined benefit asset/(liability)	(105)	37	(68)	19	(14)	5
Total	(105)	37	(68)	19	(14)	5
Other comprehensive income	(360)	107	(253)	(61)	9	(52)

Notes to the financial statements

36. Contingent liabilities and commitments

In the normal course of business, AIB UK 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 statements 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.

AIB UK 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.

AIB UK 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.

The following table shows the nominal or contract amounts of contingent liabilities and commitments:

	AIB UK Group & AIB UK	
	2022	2021
	Contract amount	Contract amount
	£m	£m
Contingent liabilities[(1)]		
Guarantees and irrevocable letters of credit	**62**	160
Other contingent liabilities	**2**	1
	64	161
Commitments[(2)]		
Documentary credits and short-term trade related transactions	**35**	40
Undrawn credit facilities		
- One year and over	**1,574**	1,271
- Less than one year	**648**	673
	2,257	1,984
	2,321	2,145

[(1)]Contingent liabilities are off-balance sheet products and include guarantees, irrevocable letters of credit and other contingent liability products such as performance bonds.
[(2)]A commitment is an off-balance sheet product, where there is an agreement to provide an undrawn credit facility. The contract may or may not be cancelled unconditionally at any time without notice depending on the terms of the contract.

For details of the internal credit ratings of contingent liabilities and commitments, see note 21, section (i).

Provisions for ECLs on loan commitments and financial guarantee contracts are set out in note 33.

Chargeback risk

AIB UK has a 16.6% equity interest (note 22), and AIB plc has a 33.3% interest, in Zolter Services d.a.c. which owns a 100% subsidiary, First Merchant Processing Ireland d.a.c. ('FMPI'), trading as AIB Merchant Services. FMPI's activities are principally focused on the provision of merchant processing services (acquiring) in respect of card transactions to merchants in Ireland, UK, Europe and a number of markets globally.

As a merchant acquirer, FMPI processes payments for point of sale and ecommerce transactions on behalf of its merchants. If a merchant fails to deliver goods or services which have been paid for by card transactions supported by FMPI, the purchaser of the goods or services may seek a refund from the merchant or raise a claim from their card issuer, also known as a 'chargeback' under VISA, MasterCard and other schemes' rules. In the event that the merchant is unwilling or unable to pay a valid chargeback, FMPI bears the potential financial loss.

In the unlikely event that FMPI is unable to meet its obligations arising from chargebacks, the exposure reverts to AIB UK and AIB plc as the principal members of the card schemes for FMPI. However, an indemnity is in place whereby the owner of the remaining 50.1% of Zolter Services d.a.c. would bear 50.1% of any such potential losses and AIB plc has further indemnified AIB UK for its share of any potential chargeback losses.

37. 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 policies for financial assets in note 1.12 and financial liabilities in note 1.13 describe how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the carrying amounts of the financial assets and financial liabilities by measurement category and by statement of financial position heading at 31 December 2022 and 2021.

				AIB UK Group
				2022
	Carrying amount in statement of financial position			
	At fair value through profit or loss	At fair value through other comprehensive income	At amortised cost	Total
	Mandatorily	Cash flow hedge derivatives		
	£m	£m	£m	£m
Financial assets				
Cash and balances at central banks	—	—	3,924 [1]	3,924
Derivative financial instruments	172	48	—	220
Loans and advances to banks	—	—	555	555
Loans and advances to customers	—	—	5,718	5,718
Investment securities	50	—	—	50
Other financial assets	—	—	55	55
	222	48	10,252	10,522
Financial liabilities				
Deposits by central banks and banks	—	—	390	390
Customer accounts	—	—	8,204	8,204
Derivative financial instruments	171	335	—	506
Other financial liabilities	—	—	80	80
	171	335	8,674	9,180

[1] Includes cash on hand of £45m.

All amounts are the same for AIB UK, with the exception of customer accounts which is £8,213m in AIB UK (see note 30).

	AIB UK Group			
	2021			
	Carrying amount in statement of financial position			
	At fair value through profit or loss	At fair value through other comprehensive income	At amortised cost	Total
	Mandatorily	Cash flow hedge derivatives		
	£m	£m	£m	£m
Financial assets				
Cash and balances at central banks	—	—	5,306 [(1)]	5,306
Derivative financial instruments	78	13	—	91
Loans and advances to banks	—	—	637	637
Loans and advances to customers	—	—	6,198	6,198
Investment securities	40	—	—	40
Other financial assets	—	—	17	17
	118	13	12,158	12,289
Financial liabilities				
Deposits by central banks and banks	—	—	434	434
Customer accounts	—	—	10,088	10,088
Derivative financial instruments	80	48	—	128
Other financial liabilities	—	—	174	174
	80	48	10,696	10,824

[(1)]Includes cash on hand of £65m.

All amounts are the same for AIB UK, with the exception of customer accounts which is £10,098m in AIB UK (see note 30).

38. 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 AIB UK Group has access at that date. AIB UK Group's accounting policy for the determination of fair value of financial instruments is set out in note 1.15.

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. AIB UK 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.

Notes to the financial statements

All financial instruments are initially recognised at fair value. Financial instruments held for trading and investment securities are subsequently measured at fair value through profit or loss. Cash flow hedge derivatives are subsequently measured at fair value through other comprehensive income. All valuations are carried out within the Finance function of AIB UK Group and valuation methodologies are validated by the independent Risk function within AIB UK Group.

The fair value information presented in this note does not purport to represent, nor should it be construed to represent, the underlying value of AIB UK Group as a going concern at 31 December 2022.

The methods used for calculation of fair value in the year to 31 December 2022 are as follows:

Financial instruments measured at fair value in the financial statements

Derivative financial instruments

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 derivative's valuation model, the fair value is estimated using inputs which provide AIB UK 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: Expected positive exposure ('EPE') x PD x LGD. EPE profiles are generated at a counterparty netting set through simulation. 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 (2021: 60%).

FVA is calculated as: Expected exposure ('EE') x funding spread ('FS') x counterpart survival probability (1-PD). EE profiles (net of expected positive and negative exposures) are generated at a counterparty netting set through simulation. Funding spreads used are an average implied by CDSs for AIB UK Group's most active external derivative counterparties. The rationale in applying these spreads is to best estimate the FVA which a counterparty would apply in a transaction to close out AIB UK Group's existing positions. FVA is only applied as a valuation adjustment when negative.

Investment securities

The fair value of the equity investment securities has been estimated based on expected sale proceeds. The expected sale proceeds are based on a net asset valuation of the underlying trading entity. As there is no recently available market data for a directly comparable instrument, management judgement has been applied within this valuation technique. Details of the estimates used in the fair value calculation of investment securities are set out in note 2: Critical accounting judgements and estimates.

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

AIB UK Group provides lending facilities of varying rates and maturities to corporate and personal customers.

Valuation techniques are used in estimating the fair value of loans, primarily using discounted cash flows and applying market rates where practicable and taking credit risk into account.

With regard to the above valuation techniques regarding cash flows and discount rates, a key assumption for loans and advances is that the carrying amount of variable rate loans (excluding mortgage products) approximates to market value. For fixed rate loans, the fair value is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in that portfolio.

The fair value of mortgage products, including tracker mortgages, is calculated by discounting expected cash flows using discount rates that reflect the interest rate/credit risk in the portfolio.

Notes to the financial statements

Deposits by banks, customer accounts and secondary non-preferential debt
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 AIB UK Group.

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 AIB UK Group are included in note 36. 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 below sets out the carrying amount and fair value of financial instruments across the three levels of the fair value hierarchy at 31 December 2022 and 2021:

	AIB UK Group				
	2022				
	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	220	—	212	8	220
Equity investment securities at FVTPL	50	—	—	50	50
	270	—	212	58	270
Financial assets not measured at fair value					
Cash and balances at central banks	3,924	52	3,872	—	3,924
Loans and advances to banks	555	—	232	323	555
Loans and advances to customers	5,718	—	—	5,634	5,634
Other financial assets	55	—	—	55	55
	10,252	52	4,104	6,012	10,168
Financial liabilities measured at fair value					
Derivative financial instruments	506	—	350	156	506
	506	—	350	156	506
Financial liabilities not measured at fair value					
Deposits by central banks and banks	390	—	250	140	390
Customer accounts	8,204	—	—	8,203	8,203
Other financial liabilities	80	—	—	80	80
	8,674	—	250	8,423	8,673

	AIB UK Group				
	2021				
	Carrying amount	Fair value			
		Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m	£m
Financial assets measured at fair value					
Derivative financial instruments	91	—	35	56	91
Equity investment securities at FVTPL	40	—	—	40	40
	131	—	35	96	131
Financial assets not measured at fair value					
Cash and balances at central banks	5,306	65	5,241	—	5,306
Loans and advances to banks	637	—	303	334	637
Loans and advances to customers	6,198	—	—	6,182	6,182
Other financial assets	17	—	—	17	17
	12,158	65	5,544	6,533	12,142
Financial liabilities measured at fair value					
Derivative financial instruments	128	—	113	15	128
	128	—	113	15	128
Financial liabilities not measured at fair value					
Deposits by central banks and banks	434	—	250	194	444
Customer accounts	10,088	—	—	10,087	10,087
Other financial liabilities	174	—	—	174	174
	10,696	—	250	10,455	10,705

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 2022 and 2021.

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:

					AIB UK Group
					2022
			Financial assets		Financial liabilities
	Derivatives	Investment securities	Total	Derivatives	Total
		Equities at FVTPL			
	£m	£m	£m	£m	£m
At 1 January 2022	56	40	96	15	15
Transfers into/out of level 3[1]	—	—	—	—	—
Total gains or losses in:					
Profit or loss:					
Net trading income	(48)	—	(48)	141	141
Net change in FVTPL	—	10	10	—	—
At 31 December 2022	**8**	**50**	**58**	**156**	**156**

					AIB UK Group
					2021
			Financial assets		Financial liabilities
	Derivatives	Investment securities	Total	Derivatives	Total
		Equities at FVTPL			
	£m	£m	£m	£m	£m
At 1 January 2021	118	34	152	—	—
Transfers into/out of level 3[1]	—	—	—	—	—
Total gains or losses in:					
Profit or loss:					
Net trading income	(62)	—	(62)	15	15
Net change in FVTPL	—	6	6	—	—
At 31 December 2021	56	40	96	15	15

[1]Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

Significant unobservable inputs

The table below sets out information about significant unobservable inputs used in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

Financial instrument		Fair value 31 December 2022 £m	Fair value 31 December 2021 £m	Valuation technique	Significant unobservable input	Range of estimates 31 December 2022	Range of estimates 31 December 2021
Derivatives	Asset	**8**	56	CVA [(1)]	LGD	**38% - 56%**	40% - 58%
	Liability	**156**	15			**(Base 46%)**	(Base 48%)
				CVA	PD	**0.5% - 2.9%**	0.6% - 3.3%
						(Base 1.0% 1 year PD	(Base 1.4% 1 year PD)
				FVA [(1)]	Funding spreads	**(0.1%) - 0.2%**	(0.2%) - 0.3%
Investment securities - equity	Asset	**50**	40	Expected market value	Net asset value	**€341m**	€284m

[(1)] The fair value measurement sensitivity to unobservable inputs at 31 December 2022 ranged from (i) negative £2m to positive £1m for CVA (31 December 2021: negative £5m to positive £2m) and (ii) negative £nil to positive £nil for FVA (31 December 2021: negative £1m to positive £nil).

Sensitivity of Level 3 measurements

The implementation of valuation techniques involves a considerable degree of judgement. While AIB UK 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 2022 and 2021:

2022	Level 3 – Effect on income statement – Favourable £m	Level 3 – Effect on income statement – Unfavourable £m	Level 3 – Effect on other comprehensive income – Favourable £m	Level 3 – Effect on other comprehensive income – Unfavourable £m
Classes of financial assets				
Derivative financial instruments	**1**	**(1)**	**—**	**—**
Investment securities - equity	**5**	**(15)**	**—**	**—**
Total	**6**	**(16)**	**—**	**—**
Classes of financial liabilities				
Derivative financial instruments	**—**	**(1)**	**—**	**—**
Total	**—**	**(1)**	**—**	**—**

2021	Level 3 – Effect on income statement – Favourable £m	Level 3 – Effect on income statement – Unfavourable £m	Level 3 – Effect on other comprehensive income – Favourable £m	Level 3 – Effect on other comprehensive income – Unfavourable £m
Classes of financial assets				
Derivative financial instruments	2	(6)	—	—
Investment securities - equity	4	(6)	—	—
Total	6	(12)	—	—

39. Interest rate sensitivity

Structural interest rate risk arises in AIB UK Group's banking business where assets and liabilities have different repricing characteristics. Part of AIB UK Group's return on financial instruments is obtained from the overall management of interest rate risk in the banking book ('IRRBB') which seeks to balance AIB UK Group's net interest income sensitivity with its capital at risk by entering into structural hedging swaps. The net interest rate sensitivity of AIB UK Group at 31 December 2022 and 2021 is illustrated in the following tables. The tables set 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 also included.

The tables show the sensitivity of the statement of financial position at one point in time and are not necessarily indicative of positions at other times. In developing the classifications used in the tables it has been necessary to make certain assumptions and approximations in assigning assets and liabilities to different repricing categories. Non-interest bearing amounts relating to loans and advances to customers include ECL allowances. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and maturity date. Transactions without defined repricing terms are shown according to management expectations. Contractual repricing does not illustrate the potential impact of early repayment or withdrawal. Positions may not be reflective of those in adjacent and/or future periods. Major changes can be made rapidly as the market outlook fluctuates. Further, significant variability may exist within the repricing periods presented.

Interest rate sensitivity

										2022
	0<1 Month	1<3 Months	3<12 Months	1<2 Years	2<3 Years	3<4 Years	4<5 Years	5+ Years	Non-interest bearing	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets										
Loans and advances to banks	470	—	—	—	—	—	—	—	85	555
Loans and advances to customers	5,022	142	159	144	125	132	105	86	(197)	5,718
Investment securities	—	—	—	—	—	—	—	—	50	50
Other assets	3,872	—	—	—	—	—	—	—	680	4,552
Total assets	9,364	142	159	144	125	132	105	86	618	10,875
Liabilities										
Deposits by central banks and banks	350	1	4	6	6	5	4	14	—	390
Customer accounts	5,552	193	481	127	2	—	—	—	1,849	8,204
Other liabilities	—	—	—	—	—	—	—	—	627	627
Shareholders' equity	—	—	—	—	—	—	—	—	1,654	1,654
Total liabilities and shareholders' equity	5,902	194	485	133	8	5	4	14	4,130	10,875
Derivative financial instruments affecting interest rate sensitivity	2,481	(122)	(492)	(255)	(147)	(115)	(149)	(1,201)	—	
Interest sensitivity gap	981	70	166	266	264	242	250	1,273	(3,512)	
Cumulative interest sensitivity gap	981	1,051	1,217	1,483	1,747	1,989	2,239	3,512	—	

	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	2021 Total £m
Assets										
Loans and advances to banks	518	1	—	—	—	—	—	—	118	637
Loans and advances to customers	4,325	1,099	376	173	114	138	142	57	(226)	6,198
Investment securities	—	—	—	—	—	—	—	—	40	40
Other assets	5,241	—	—	—	—	—	—	—	572	5,813
Total assets	10,084	1,100	376	173	114	138	142	57	504	12,688
Liabilities										
Deposits by central banks and banks	114	263	7	7	7	7	7	22	—	434
Customer accounts	6,904	206	436	123	—	—	—	—	2,419	10,088
Other liabilities	—	—	—	—	—	—	—	—	374	374
Shareholders' equity	—	—	—	—	—	—	—	—	1,792	1,792
Total liabilities and shareholders' equity	7,018	469	443	130	7	7	7	22	4,585	12,688
Derivative financial instruments affecting interest rate sensitivity	1,351	639	(296)	(200)	(132)	(108)	(120)	(1,134)	—	
Interest sensitivity gap	1,715	(8)	229	243	239	239	255	1,169	(4,081)	
Cumulative interest sensitivity gap	1,715	1,707	1,936	2,179	2,418	2,657	2,912	4,081	—	

Interest rate risk

AIB UK Group is exposed to the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of the change in market interest rates. Interest rate risk in the banking book is measured and controlled using three metrics:

- non-traded VaR;
- net interest income sensitivity; and
- economic value of equity.

Net interest income sensitivity captures the expected impact of changes in interest rates on base case projected net interest income for a specified financial period, typically one year.

Economic value of equity captures the expected impact of changes in interest rates on base case economic value. It captures all non-traded items irrespective of the profit and loss accounting treatment.

The table below shows the sensitivity of AIB UK Group's banking book to an immediate and sustained 100 basis point movement in interest rates, in terms of the impact on net interest income on a forward looking basis over a twelve month period, assuming no change in the balance sheet. The analysis is subject to certain simplifying assumptions such as all interest rate movements occurring simultaneously and all other non-interest rate risk variables remaining constant. Additionally, it is assumed that no management action is taken in response to the rate movements.

In deriving the base case net interest income projections, the repricing rates of assets and liabilities used are derived from current yield curves, thereby reflecting current market expectations of the future path of interest rates. The scenarios, therefore, represent interest rate shocks to the current market implied path of rates.

Sensitivity of projected net interest income to interest rate movements	2022 £m	2021 £m
+ 100 basis point parallel move in all interest rates	39	56
- 100 basis point parallel move in all interest rates	(39)	(58)

Interest rate benchmark reform

Authorities and regulators have substantively facilitated the market's transition from interbank offered rates, referred to as "IBOR" benchmark rates (e.g. LIBOR), to alternative Risk Free Rates ("RFRs"). In line with regulatory guidance and transformed market practice, SONIA (Sterling Overnight Index Average) has effectively replaced GBP LIBOR and SOFR (Secured Overnight Financing Rate) has been adopted to replace USD LIBOR in pricing new loans.

The Parent Group established a bank-wide Interest Rate Benchmark Reform Transition Programme ('the Programme') with sponsorship from the AIB Group plc Chief Financial Officer to manage the effort. The Programme was substantively completed by early 2022, having overseen the successful execution of related business readiness, technology enhancements, contract re-papering, customer communication and conduct activities.

Residual IBOR transition activities are now being undertaken by the relevant business and support functions under established procedures. The 2022 agenda has been focused on completing the transition of residual GBP and USD LIBOR transactions. There was a c.£2.5 billion reduction across GBP derivative and funding activities in 2022, including a reduction of outstanding GBP synthetic LIBOR derivatives of c. £715 million. There are £441m GBP LIBOR positions remaining as at 31 December 2022. In USD terms, there was a $39 million reduction in LIBOR facilities in 2022, with $20 million remaining to be managed as at 31 December 2022.

40. Statement of cash flows - additional information

Non-cash items included in profit/ (loss) before taxation

	AIB UK Group		AIB UK	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Credit impairment charge/(writeback) before recoveries	**43**	(5)	**43**	(5)
(Profit)/loss on disposal of property	**(2)**	3	**(2)**	3
Net gain on equity investments measured at FVTPL	**(10)**	(6)	**(10)**	(6)
Provision for liabilities and commitments	**2**	13	**3**	13
Depreciation, amortisation and impairment	**13**	19	**13**	19
Dividends received from subsidiary undertakings	**—**	—	**(1)**	(3)
Retirement benefits - defined benefit income	**(1)**	—	**(1)**	—
Change in prepayments and accrued income	**3**	(6)	**3**	(6)
Change in accruals and deferred income	**3**	1	**3**	1
Loss on disposal of loans and advances to customers	**16**	8	**16**	8
Total non-cash items	**67**	27	**67**	24

Analysis of cash and cash equivalents

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

	AIB UK Group		AIB UK	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Cash and balances at central banks	**3,924**	5,306	**3,924**	5,306
Loans and advances to banks[1]	**219**	159	**219**	159
Deposits by central banks and banks	**(86)**	(112)	**(86)**	(112)
Cash and cash equivalents	**4,057**	5,353	**4,057**	5,353

[1]Excluding regulatory balances with the Bank of England.

41. Financial assets and liabilities by contractual residual maturity

The following table analyses financial assets and financial liabilities by contractual residual maturity at 31 December 2022 and 2021[(1)].

	On demand	**Less than 3 months, but not on demand**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**2022 Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Financial assets						
Cash and balances at central banks	**3,924**	**—**	**—**	**—**	**—**	**3,924**
Derivative financial instruments[(2)]	**—**	**3**	**9**	**80**	**128**	**220**
Loans and advances to banks	**341**	**214**	**—**	**—**	**—**	**555**
Loans and advances to customers[(3)]	**194**	**162**	**464**	**3,101**	**1,994**	**5,915**
Other financial assets	**—**	**51**	**—**	**—**	**—**	**51**
	4,459	**430**	**473**	**3,181**	**2,122**	**10,665**
Financial liabilities						
Deposits by central banks and banks	**86**	**1**	**11**	**263**	**29**	**390**
Customer accounts	**6,970**	**613**	**487**	**133**	**1**	**8,204**
Derivative financial instruments[(2)]	**—**	**6**	**10**	**119**	**371**	**506**
Other financial liabilities	**80**	**—**	**—**	**—**	**—**	**80**
	7,136	**620**	**508**	**515**	**401**	**9,180**

	On demand	Less than 3 months, but not on demand	3 months to 1 year	1 to 5 years	Over 5 years	2021 Total
	£m	£m	£m	£m	£m	£m
Financial assets						
Cash and balances at central banks	5,306	—	—	—	—	5,306
Derivative financial instruments[(2)]	—	5	3	16	67	91
Loans and advances to banks	421	216	—	—	—	637
Loans and advances to customers[(3)]	237	168	480	3,404	2,110	6,399
Other financial assets	—	14	—	—	—	14
	5,964	403	483	3,420	2,177	12,447
Financial liabilities						
Deposits by central banks and banks	112	5	2	265	50	434
Customer accounts	8,904	609	443	131	1	10,088
Derivative financial instruments[(2)]	—	5	5	13	105	128
Other financial liabilities	174	—	—	—	—	174
	9,190	619	450	409	156	10,824

(1) AIB UK Group has changed its classification of cash collateral placed with derivative counterparties. This has resulted in the 2021 comparative period being restated with £79m in financial assets moving from on demand to the 0-3 month maturity time-bucket.

(2) Shown by maturity date of contract.

(3) Shown gross of loss allowance on financial assets.

Notes to the financial statements

The analysis by remaining maturity of loans and advances to customers is based on contractual maturity dates, which are the earliest dates on which repayment can be demanded. Past experience would indicate repayment frequently takes place prior to contractual maturity dates.

42. Financial liabilities by undiscounted contractual maturity

The table below shows the undiscounted cash outflows, relating to principal and interest, on the AIB UK Group financial liabilities on the basis of their earliest possible contractual maturity. The expected cash outflows on some financial liabilities, for example customer demand deposits, vary significantly from the contractual cash outflows. In the daily management of liquidity risk, AIB UK Group adjusts the contractual outflows on customer deposits to reflect inherent stability of these deposits. Offsetting the liability outflows are cash inflows from the assets on the statement of financial position. Additionally, AIB UK Group holds a stock of high quality liquid assets (as outlined in note 17), which are held for the purpose of covering unexpected cash outflows.

						2022
	On demand	**Less than 3 months, but not on demand**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Financial liabilities						
Deposits by central banks and banks	**86**	**1**	**12**	**302**	**31**	**432**
Customer accounts	**6,970**	**615**	**495**	**136**	**8**	**8,224**
Derivative financial instruments	**—**	**29**	**99**	**315**	**135**	**578**
Other financial liabilities	**80**	**—**	**—**	**—**	**—**	**80**
	7,136	**645**	**606**	**753**	**174**	**9,314**

						2021
	On demand	Less than 3 months, but not on demand	3 months to 1 year	1 to 5 years	Over 5 years	Total
	£m	£m	£m	£m	£m	£m
Financial liabilities						
Deposits by central banks and banks	112	5	2	266	50	435
Customer accounts	8,904	610	445	132	2	10,093
Derivative financial instruments	—	6	11	71	45	133
Other financial liabilities	174	—	—	—	—	174
	9,190	621	458	469	97	10,835

The table below shows the contractual expiry by maturity of AIB UK Group’s contingent liabilities and commitments.

	2022	2021
	On demand	On demand
	£m	£m
Contingent liabilities	**64**	161
Commitments	**2,257**	1,984
	2,321	2,145

AIB UK Group does not expect all of the contingent liabilities or commitments to be drawn before expiry date.

Notes to the financial statements

43. Related party transactions

Related parties are those persons or entities that are related to the entity preparing its financial statements. They can include persons who have significant control or influence on the entity, entities that are members of the same group of companies, or associated companies or joint ventures.

In AIB UK Group's case, related parties comprise key management personnel, the Parent and fellow subsidiaries, and the pension funds.

(a) Transactions, arrangements and agreements involving Directors and others

Key management personnel ('KMP') are those persons considered having the authority and responsibility for planning, directing and controlling the activities of AIB UK Group, directly or indirectly. They comprise executive and non-executive Directors of AIB UK Group and members of the UK Leadership Team.

The number of loans and amounts outstanding at the year-end under transactions, arrangements and agreements entered into by AIB UK or its subsidiaries or the Parent with KMP and other related parties were:

	2022			2021		
	Number of persons	**Number of loans**	**Balance at year end**	Number of persons	Number of loans	Balance at year end
			£m			£m
Key management personnel	**2**	**5**	**0.4**	5	14	0.8

Home and personal loans to KMP are made available on the same terms as are available to other employees in AIB UK Group. Commercial loans and loans to related parties are made in the ordinary course of business on normal commercial terms. The loans are primarily of a secured nature and an insignificant expected credit loss allowance is held on these loans at 31 December 2022 and 2021. Repayments on loans to KMP during the year amounted to £0.1m and drawdowns were £nil.

These loans do not involve more than the normal risk of repayment or present other unfavourable features. No guarantees were given or received in relation to these transactions.

(b) Compensation of key management personnel

The table below outlines the compensation paid to KMP during the year:

	Key management personnel		**Highest paid Director**	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Salary and other short term benefits	**2.8**	3.1	**0.3**	0.4
Post-employment benefits	**0.2**	0.3	**—**	0.1
Termination benefits	**—**	0.0	**—**	—
Total	**3.0**	3.4	**0.3**	0.5

In 2022, there were 21 KMP for all or part of the year (2021: 24). The table above represents the compensation paid in relation to the period for which they were key management personnel.

Retirement benefits accrued to 3 KMP (2021: 3) of which the accrued pension amount for the highest paid member at the end of the year was £nil (2021: £0.1m).

Termination benefits relate to severance payments made to KMP. There were no termination benefits paid to KMP in 2022 (2021: £0.02m).

No payments to former Directors were made during the year (2021: £nil).

No share options were granted or exercised during 2022 (2021: nil), and there were no options to subscribe for ordinary shares in the ultimate parent, AIB Group plc, outstanding in favour of KMP at 31 December 2022 (2021: nil). There were no long-term incentive schemes in operation during the year (2021: nil).

(c) Provision of banking services to UK Pension Funds

AIB UK Group provides normal banking facilities for the UK Scheme on terms similar to those applied to third parties.

Notes to the financial statements

(d) Subsidiary undertakings

In accordance with IAS 24 *Related Party Disclosures*, intra-group related party transactions and outstanding balances are eliminated in the preparation of the consolidated financial statements of AIB UK Group. AIB UK enters into transactions with the subsidiary companies listed in note 23. Funding is provided on terms similar to those that apply to third parties.

The table below provides the balances that AIB UK Group has with its subsidiaries and the transactions included in the income statement:

	2022	2021
	£m	£m
Statement of financial position		
Deposits	**9**	10
Income statement		
Interest expense	**—**	—

(e) Immediate parent and fellow subsidiaries

Transactions that AIB UK Group enters into with AIB plc and fellow subsidiaries are made in the ordinary course of business at normal commercial terms. AIB UK Group uses derivatives to manage its interest rate risk.

The table below provides the balances that AIB UK Group has with AIB plc and fellow subsidiaries and the transactions included in the income statement:

	2022		2021	
	AIB plc	**Fellow subsidiaries**	AIB plc	Fellow subsidiaries
	£m	**£m**	£m	£m
Statement of financial position				
Loans and advances	**232**	**13**	233	13
Deposits	**(138)**	**(13)**	(184)	(43)
Derivative financial instruments (assets)	**206**	**—**	31	—
Derivative financial instruments (liabilities)	**(349)**	**—**	(111)	—
Income statement				
Interest income	**(14)**	**—**	15	—
Interest expense	**1**	**—**	(8)	—
Net fee and commission income	**—**	**3**	—	3
Trading and other income/(expense)	**188**	**—**	(60)	—
Operating expenses	**(30)**	**—**	(30)	—

In 2022, there were no transactions between AIB UK Group and the ultimate parent company, AIB Group plc (2021: £nil).

(f) Loans acquired from other AIB group companies

During 2013, AIB UK Group acquired loans with a gross book value of £201m from other AIB group companies. In 2022, AIB UK Group recognised £0.1m (2021: £1.8m) fair value amortisation income on these loans.

(g) Transactions with key management personnel

Connected persons

The aggregate of loans to connected persons of Directors in office are as follows (aggregate of 4 persons; 2021: 5):

	2022	2021
	£'000	£'000
Loans	2	4
Total	**2**	4

The total interest received on these loans in 2022 was £nil (2021: £nil).

The loans are made on normal commercial terms, and an insignificant expected credit loss allowance is held on these loans at 31 December 2022 and 2021.

44. Events after the reporting period

The following significant events affecting AIB UK Group or AIB UK have occurred since the reporting date which do not require amendment to the financial statements:

Dissolution of subsidiaries

On 14 February 2023, First Trust Financial Planning Limited and First Trust Leasing No.4 (Northern Ireland) Limited, two subsidiaries of AIB UK, were dissolved.

Sale of non-performing loans

On 28 February 2023 proceeds of £34m were received by AIB UK relating to the sale of a portfolio of non-performing loans to a third party (note 15). The loans were derecognised from the balance sheet of AIB UK on 21 December 2022.

45. Parent company

Reference to the immediate parent undertaking refers to AIB plc, a company registered in the Republic of Ireland, with its registered office at 10 Molesworth Street, Dublin 2. AIB plc is the smallest group for which consolidated accounts are prepared.

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

Glossary of terms

AIB GB	Allied Irish Bank (GB)
AIB plc	Allied Irish Banks, p.l.c, the principal operating company
AIB Group plc	Holding company and ultimate parent of AIB plc and AIB UK
AIB NI	AIB (NI), formerly First Trust Bank
AIB UK	AIB UK', 'The Bank' or 'The Company' will relate to AIB Group (UK) p.l.c.
AIB UK Group	AIB UK Group' will relate to AIB Group (UK) p.l.c. and its subsidiaries
APM	Alternative Performance Measure
APP	Assured Payment Policy
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.
b	Billions
Bounce Back Loan Scheme	The Bounce Back Loan scheme enables small and medium sized businesses to borrow between £2,000 and up to 25% of their turnover at a low interest rate. subject to a maximum of £50,000. It is part of a series of government measures available in support of UK businesses impacted by COVID-19 and provides a guarantee for 100% of the loan. It closed to new applications and applications for top-ups, on 31 March 2021.
bps	Basis points. One hundredth of a percent (0.01%), so 100 basis points is 1%.
Brexit	An abbreviation for 'British exit' referring to the UK's decision to withdraw from the EU, based on the referendum held on 23 June 2016 and the political process associated with the EU.
CDS	Credit Default Swap
CET1	Common Equity Tier 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.
CFO	Chief Financial Officer
Code	Code of Conduct
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.
COO	Chief Operating Officer
CRD IV	Capital Requirements Directive IV
Credit impaired	Under IFRS 9, these are Stage 3 financial assets where there is objective evidence of impairment and, therefore, considered to be in default. A lifetime ECL is recognised for such assets.
Credit rating	An evaluation of the creditworthiness of an entity seeking to enter into a credit agreement.
Credit risk	The risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.
Criticised loans	Loans requiring additional management attention over and above that normally required for the loan type.
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
Customer accounts	A liability of AIB UK 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.
CVA	Counterparty Valuation Adjustment
DCF	Discounted cash flow
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/her 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 statement of financial position.
EAD	Exposure at default ('EAD') is the expected or actual amount of exposure to the borrower at the time of default.
ECL	Expected credit loss ('ECLs') – The weighted average of credit losses with the respective risks of a default occurring as the weights.
EE	Expected exposure
EPC	Energy Performance Rating
EPE	Expected positive exposure
ERU	Economic Research Unit
ESG	Environmental, social and governance
ESOS	Energy Savings Opportunity Scheme
EU	European Union
ExCo	Executive Committee
FCA	Financial Conduct Authority
Forbearance	Forbearance is the term used when repayment terms of a loan contract have been renegotiated to make payment terms more manageable for borrowers. Standard forbearance techniques have the common characteristics of rescheduling principal or interest repayments, rather than reducing them. Standard forbearance techniques employed by AIB UK 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.
FRC	Financial Reporting Council
FSG	Financial Solutions Group
FSCS	Financial Services Compensation Scheme
FTE	Full time equivalent
FVA	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.
FVOCI	Fair value through other comprehensive Income
FVTPL	Fair value through profit or loss
GB	Great Britain
GDP	Gross Domestic Product ('GDP') is a monetary measure of the value of all final goods and services produced in a period of time (quarterly or yearly). GDP estimates are commonly used to determine the economic performance and standard of living of a whole country or region, and to make international comparisons.
GHG	Greenhouse Gas
Green mortgage	Green mortgages are offered to new and existing mortgage borrowers buying a home (private dwelling) which has an Energy Performance Rating ('EPC') of A or B.
GSP	Group Sustainability Programme
Guarantee	An undertaking by AIB UK Group/other party to pay a creditor should a debtor fail to do so.
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IBOR	Interbank Offered Rate
ICAAP	Internal Capital Adequacy Assessment Process. AIB UK 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.
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IRBA	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').
IRHP	Interest Rate Hedging Products
IRRBB	Interest Rate Risk in the Banking Book. The current or prospective risk to both the earnings and capital of AIB UK Group as a result of adverse movements in interest rates that affect the banking book positions.
ISA	International Standards on Auditing
KMP	Key management personnel
kWh	Kilowatt-hour
LCR	Liquidity Coverage Ratio (LCR') is 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.

Leverage ratio	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.
LGD	Loss given default (‘LGD’) is the expected or actual loss in the event of default, expressed as a percentage of exposure at default ('EAD').
LIBOR	London Inter-Bank Offered Rate
Liquidity risk	The risk that AIB UK 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.
LLP	Limited Liability Partnership
Loan to deposit ratio	This is the ratio of loans and advances to customers expressed as a percentage of customer accounts, as presented in the statement of financial position.
LTPD	Lifetime probability of default
m	Millions
MRA	Material Risk Assessment
Net loans	Total loans minus the drawn credit provisions
Net Zero	Net zero refers to a state in which the greenhouse gases going into the atmosphere are balanced by removal out of the atmosphere.
NI	Northern Ireland
Net interest income	The amount of interest received or receivable on assets net of interest paid or payable on liabilities.
NIM	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.
Non-performing exposures/loans	Non-performing exposures/loans are 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.
NPS	Net Promoter Score
OCI	Other comprehensive income
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.
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.
OTC	Over-the-counter
PBI	Pensioner Buy-In
PD	Probability of Default ('PD') is the likelihood that a borrower will default on an obligation to repay.
Pillar 1	Sets out the rules for calculating minimum regulatory capital. It is a variable capital requirement based on the sum of operational, market and credit risk requirements. AIB UK Group must maintain, at all times, capital resources equal to or in excess of the amount specified.
Pillar 2	This Supervisory Review Process requires supervisors to ensure each bank has a sound internal process in place to assess the adequacy of its capital based on a thorough evaluation of its material risks.
PMA	Post model adjustment
POCI	Purchased or originated credit impaired financial assets
PP	Prepayments
PPI	Payment Protection Insurance
PRA	Prudential Regulation Authority
PwC	PricewaterhouseCoopers
RAS	Risk Appetite Statement
Repo	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.
Reverse repo	A purchase of securities with an agreement to resell them at a higher price at a specific future date.

RFR	Risk-free rate
RWA	Risk weighted assets ('RWA') 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.
SCA	Strong Customer Authentication
SECR	Streamlined Energy and Carbon Reporting
Section 172(1)	Section 172(1) of the Companies Act 2006
Securitisation	The process of aggregation and repacking of non-tradable financial instruments such as loans and advances, or company cash flow into securities that can be issued and traded in the capital markets.
SICR	Significant increase in credit risk
SID	Senior Independent Director
SLP	AIB PFP Scottish Limited Partnership
SME	Small and medium-sized enterprises (SMEs) are businesses whose personnel numbers and financial results fall below certain limits.
SMR	Senior Managers Regime
SONIA	Sterling Overnight Index Average
SPPI	Solely payments of principal and interest
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.
TCFD	Taskforce on Climate-related Financial Disclosures
The Company	AIB Group (UK) p.l.c.
The Parent	Allied Irish Banks, p.l.c.
The Parent Group	Allied Irish Banks, p.l.c. and its subsidiary undertakings, which includes AIB Group (UK) p.l.c.
Tier 1 capital	A measure of a bank's financial strength defined by the Basel Accord. It captures core Tier 1 capital plus other Tier 1 securities in issue, but is subject to deductions in relation to the excess of expected loss on the IRBA portfolios over the IFRS provision on the IRBA portfolios, securitisation positions and material holdings in financial companies.
Tracker mortgage	A tracker mortgage has a variable interest rate. The rate tracks the Bank of England rate, at an agreed margin above the Bank of England rate and will increase or decrease within five days of a Bank of England rate movement.
UK ALCo	UK Asset & Liability Committee
UKCC	UK Credit Committee
UKLM	AIB UK Loan Management Limited
UKLT	UK Leadership Team
UK OpCo	UK Operations Committee
UKRC	AIB UK Group Risk Committee
UK Scheme	AIB Group (UK) Pension Scheme
VaR	Value at Risk
VAT	Value Added Tax
VIU	Value-in-use
Vulnerable loans	Loans where repayment is in jeopardy from normal cash flow and may be dependent on other sources.
1LOD	First Line of Defence
2LOD	Second Line of Defence
3LOD	Three lines of defence