AIB Group (UK) p.l.c.

Annual Financial Report

for the year ended 31 December 2023

Company number: NI018800

Contents

Strategic report

Risk management report

Governance and oversight

Financial statements

General information

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.

Strategic report

How we've done

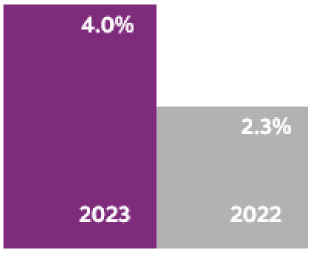
2023 performance

Financial performance

Net interest margin[1]

4.0%

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

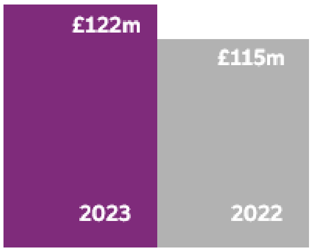


Total adjusted costs[2]

£122m

Continued focus on cost management
Cost increases as a result of higher FTE's combined with the cost of regulatory projects.

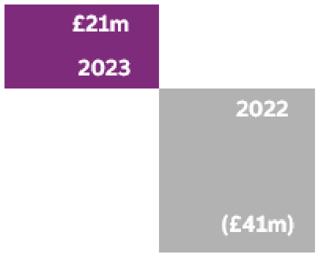
Statutory operating expenses £127m (including restructuring costs) (2022: £122m)



Provision release

£21m

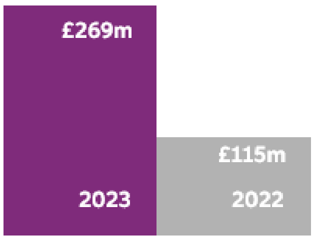
Net credit impairment writeback of £21m primarily due to an improving macro-economic outlook combined with the disposal of a non-performing portfolio. Conservative approach to provisioning with appropriate coverage.



Profit after tax

£269m

Profit after tax of £269m, up 134% due to increased net income in a higher rate environment, strong cost management and ECL writeback.



New lending

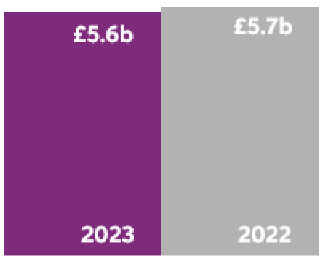
£1.2b

Continued focus on core sectors
Key sectors remained resilient through market uncertainty and rising interest rates.

Net loans

£5.6b

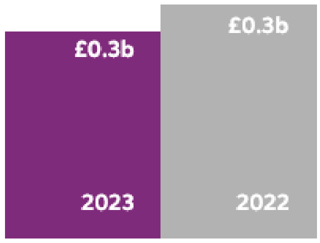
2% decrease in net loans
Lower net loans due to sale of non-performing loans in the year and challenging lending market.



Non-performing loans

£0.3b

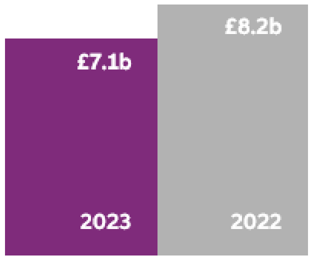
4.4% of gross loans
Decrease in non-performing loans due to strong repayments in 2023 accompanied by sale of non-performing loans.



Customer accounts

£7.1b

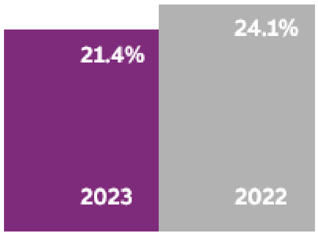
Customer balances decreased 13%
Lower customer balances driven by conclusion of strategic exit of GB SME market and customer outflows due to rising living costs and competitive marketplace.



CET1 ratio[3]

21.4%

Strong capital base
Strong and robust capital ensuring we are well positioned for sustainable growth; 2023 included £250m share buyback.

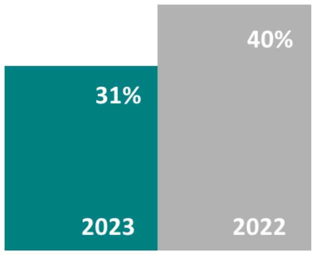


Non-financial and sustainability performance

Green new lending[4]

31%

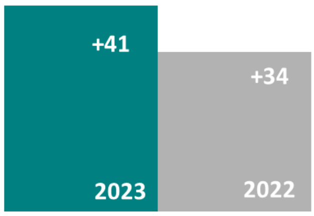
9% decrease with a higher proportion of social and non green lending
£364m of green lending during 2023 to support the transition to a lower carbon economy.



Net promoter score ('NPS')

+41

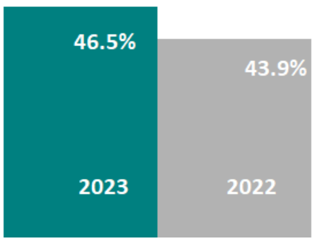
7 point increase in average NPS (AIB NI Retail)
Improvement in customer satisfaction metrics.



Gender balance[5]

46.5%

Increase in women as a % of senior management
We remain committed to delivering 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 19.*

[2] *Further information on the calculation of these adjusted measures, which we consider to be APMs, is included on page 19. Page 10 shows a reconciliation to the statutory results.*

[3] *The Common Equity Tier 1 ('CET1') ratio for 2023 includes add-backs for COVID-19 reliefs. When these reliefs are excluded, the CET1 ratio at 31 December 2023 reduces from 21.4% to 21.3%.*

[4] *See Sustainable Lending Framework for definitions and requirements for 'green lending' (https://www.aib.ie/sustainability)*

[5] *New measure being reported as of 2023. Previous reporting has been on women as a % of management, rather than senior management. 2022 data has been updated to reflect this change.*

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.

Our customers and our communities	Total number of customers 264k	Total number of digital customers 135k	12 Locations Offices in London, Belfast, Birmingham Manchester and Northampton. 7 branches in Northern Ireland	Total number of UK calls handled in our call Centres 326k	AIB €1m Community Fund: £155,000 awarded to 23 charities
Our people	Employees (direct and indirect) 45% Male 55% Female	Senior management (direct and indirect) 53.5% Male 46.5% Female	Volunteering AIB GB & NI colleagues spent over 677 hours volunteering		
Sustainability	Scope 1 & 2 location-based emissions 13% reduction in 2023	Green/ transition new lending 31% in 2023	New mortgages for Energy Efficient Homes (EPC A & B) 29%		

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 2023, AIB UK entered the final year of its three year strategy focused on completing the re-shaping of our platform to build a long-term sustainable business for our customers, our people, our shareholders and our stakeholders. I am delighted to report that this three-year period is now largely completed, leaving the UK business in a better position to focus on its core activities, both in Northern Ireland as well as in Great Britain, and to grow into new ones, as opportunities arise. As 2023 has drawn to a close, we are already beginning to see the impact of these changes in the products and capabilities we provide to our customers, and this will only increase as we move into 2024.

While we have been finishing this task, it was evident that there continued to be many external challenges including the prospect of slower economic growth and inflation. This has challenged both our corporate customers, as well as our many retail customers, as the cost of living, interest rate costs and impacts on supply chains have all come to bear.

Financial performance and business strategy

AIB UK recorded a statutory profit before taxation of £337m for the year and an adjusted profit before taxation[1] of £341m. 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 2023, strong cost management and a credit impairment writeback, due to careful and conservative portfolio management as well as an improving macroeconomic outlook combined with the disposal of non-performing portfolio. We continued to actively manage our non-performing loans and reduced our exposure to 4.4% of total gross loans.

The Bank continued to grow its business in our chosen markets, having achieved £1.2b of new lending to customers. Sustainability is a crucial priority on the Bank’s agenda, so it is pleasing to note that 31% of this new lending was in support of renewable and sustainable industries.

In line with the careful management of our balance sheet, we also took action to optimise our capital structure, through a share buyback programme and the issuing of Additional Tier 1 ('AT1') and a Subordinated Tier 2 ('Tier 2') instrument. In line with this, we are looking to propose an ordinary dividend to be paid during 2024. These changes are important landmarks on our journey to returning the UK subsidiary to a profitable and capital-generative investment for our Parent.

Customers and 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.

We have introduced Phase 1 of our programme to meet the Financial Conduct Authority's Consumer Duty principles, signed up to the commitments in the Mortgage Charter and introduced a dedicated customer deposit outreach team demonstrating our commitment to focusing on achieving good customer outcomes and aligning these with our purpose and values.

We continued to adopt a hybrid working model 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 to help create an environment where everyone can be at their best every day. We relaunched our AIB Engage Survey in 2023 to enable us to identify which areas we can take

[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 19 of this report. A reconciliation to the statutory view of performance is included in the Financial review on page 10.*

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

There were several changes to the Board in 2023 including a number of new appointments helping to further bolster our expertise and leadership.

Roger Perkin retired in March 2023 as Non-Executive Director, and Chair of Board Audit Committee, after six years on the Board. We thank Roger for his input to the Board and for being a guide and source of wisdom during the compilation and execution of our restructuring plan. We extend our best wishes to him for the future. Andrew Woosey replaces Roger and is an experienced Director and Trustee with significant experience in financial services (see page 55 for Andrew's biography).

Anne Weatherston was appointed as Non-Executive Director in January 2023, replacing Tracy Dunley-Owen. Tracey served on the Board since 2020 and, as Chair of the Technology and Operational Resilience Committee, her input in overseeing our areas of technology and operations was transformational, especially in working with our AIB Group colleagues. We wish Tracey all the best with her future endeavours. Anne brings with her a wealth of experience in the technology sector where she played an influential role in leading banks implementing technological change (see page 54 for Anne's biography).

Sally Clark was appointed to the Board as a Non-Executive Director, replacing Shelley Malton who returned to a full-time executive role with another financial institution. Shelley brought a strong customer focus and a refreshing practicality to Board discussions and her insights will be missed. Sally joins the Board after having 37 years in various executive roles in the financial markets (see page 53 for Sally's biography).

Outlook

As we move forward from our three year 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 2023. 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 Fall

Chair

4 March 2024

Managing Director's review

"We are pleased to have supported our customers through another challenging year in 2023. Our strong results positions the business well to further improve that support, leveraging our strong parent, in our distinct UK markets in 2024 and beyond".

Hilary Gormley

Introduction

We are pleased to have supported our customers through a challenging period, and we remain dedicated to our commitment of building and growing more sustainable communities for our customer base.

2023 brought a diverse set of overlapping global challenges. Whilst the UK economy fared better than had been expected, the macro-economic conditions have remained a challenge. The impacts of increasing cost of living, coupled with persistent high inflation, rising interest rates and wider economic uncertainty, continued to weigh on investment and activity.

We remained dynamic in supporting our customers through these conditions. We also completed our internal transformation and delivered on our ambition to streamline and strengthen our own business in the distinctive markets of Northern Ireland, where we provide full banking services across personal, business and corporate, and in GB where we provide funding solutions for our chosen sectors.

We have provided a number of supports to our customers both in corporate and retail, whilst delivering on our new business lending. Throughout this period of change we have continued to experience a strong and valued relationship with our regulatory bodies.

I am pleased that AIB UK has had a strong financial performance in 2023, reporting a profit before tax of £337m for the full year and delivering a return on equity of 15%. Net interest income increased by 50% due to higher income on assets as a result of the continued rising interest rate environment in 2023. We continue to enjoy strong capital and liquidity base and this year we have been in a position to return capital to our shareholder through a share buyback programme.

The excellent outcomes have been delivered by a dynamic team of colleagues who are customer focused and committed to delivering for all our customers.

Supporting customers

For Corporate Banking, we have deepened our support for business through a true partnership approach underpinned by teams with bespoke sector expertise and specialism. We established a new Syndications team, which has been proactive and successful in promoting our appetite and capability. During 2023, UK Corporate teams have also partnered with the corporate teams across the wider AIB group, providing strong enterprise-wide financial solutions and support for customers to maximise business opportunities on a larger scale.

We delivered £1.2b in new lending of which 31% was green finance across these chosen sectors in corporate, business and personal lending.

Our retail colleagues have truly been trusted advisors, delivering solutions that enable customers to achieve their financial goals quickly, confidently and sustainably. As the interest cycle has evolved, we adjusted depositor rates upwards and established a dedicated Customer Deposit outreach team for our savings customers.

In keeping with our measured approach to pricing for both mortgages and deposits, during 2023 we continued to price our mortgage offering competitively and launched a new digitised platform for mortgage intermediaries.

We further focused on reviewing our customer journey approach aligned to the principles of Consumer Duty, designed to ensure that at an industry level we are delivering good customer outcomes through our products and services. Given the economic uncertainty and rising interest rate environment, we prioritised customers concerned about their finances, offering tailored assistance and specialist support. We were also pleased to have signed up to the commitments in the Mortgage Charter, reinforcing our purpose to focus on supporting our customers needs.

Looking ahead we will continue to support and foster stronger customer relationships, working with evolving regulation, to create more meaningful and relevant customer experiences.

Supporting talent and culture

Our people and culture remain at the heart of our success during 2023. We invested in our workforce, through external and internal talent recruitment and promotions, including graduates and apprentices.

We hosted employee-led personal support events on key issues and impacts facing colleagues, creating an environment where every colleague is supported to bring their authentic self to work.

We continued to evolve our progressive people policies, including enhancing our carers policy and compassionate leave for pregnancy loss policy, and introduced a new one-off leave policy for a significant life event of a colleague’s choice during employment. In line with the ongoing cost of living crisis, colleagues were provided with a cost-of-living award up to the equivalent of £900.

We were delighted when, in addition to a number of social and business award nominations, an AIB UK colleague was a finalist in the Young Banker of the year awards, the third year in a row where we have supported our colleagues in achieving such success.

Risk and capital

The UK has a strong capital base with a CET1 ratio of 21.4% and Total Capital Ratio of 25.2% at 31 December 2023, well in excess of minimum capital requirements. With such a strong base and following regulatory approval, in 2023 we embarked on a journey to restructure and optimise our capital stack. We successfully completed a £250m share buyback coupled with AIB UK issuing £110m of AT1 and £140m of Tier 2 capital instruments. This was the first transaction of this nature for AIB UK and we will seek to propose an ordinary dividend payable in 2024 out of 2023 attributable earnings further generating returns to our shareholder.

There was a heightened awareness of liquidity risk across the industry with significant events in early 2023. While much of this was contained it brought an increased focus on liquidity management and the importance of having a diversified funding base. AIB UK maintained strong liquidity metrics throughout the year with a Liquidity Coverage Ratio ('LCR') of 216% and Net Stable Funding Ratio ('NSFR') of 139% at 31 December 2023 and has a well-diversified funding mix consisting largely of insured retail deposits.

AIB UK’s portfolio remained robust through 2023, and our assessment of its credit risk profile was reported as stable. We continue to maintain an appropriate risk appetite sustained by a focus on businesses where we can support high quality transactions.

Despite recent reductions in forecast peak interest rates, the higher interest rate environment has been identified as the most significant credit risk factor and whilst we have seen some borrowers impacted through tighter cover ratios, increased refinance risk or asset value declines, the performance of the loan book has so far been in line with expectations.

In 2023 we continued to reduce non-performing exposures and they now represent 4.4% of total gross loans to customers, a reduction from 5.6% at the end of 2022.

Operational efficiency

Our streamlined operating model has resulted in stronger capabilities across the business. We launched our business mobile app in 2023 providing customers with an easy way of managing their business finances.

We continue to move towards a more seamless credit journey and processes for our business customers and our people.

We are also committed to protecting customers from fraud and educating customers on the latest fraudulent activity and on the best ways to keep their money and details safe. As well as providing support if they do fall victim to fraud, any incident is investigated promptly and dealt with on a case-by-case basis. In 2023, instances of authorised push payment fraud within AIB NI were relatively low and we continue to focus on preventive measures to help protect customers.

Sustainability

In 2023 our Parent Group tripled its climate action fund initiative to €30 billion by 2030, which underscores our deep dedication to our customers, our climate, and our planet.

In 2023 AIB UK continued to focus on green and social lending delivering 31% of all new lending as green and reduced our Scope 1 & 2 location-based emissions by 13% in 2023 when compared to 2022.

Strategic community partnerships, volunteering, corporate giving and fundraising activities are designed to make a meaningful difference. In 2023 the AIB Community €1 Million Fund entered its second year supporting charities close to the hearts of our colleagues, customers, and communities. In AIB UK the fund covers both geographies of Great Britain and Northern Ireland and in the last two years 40 UK charities have benefited.

Colleagues were entitled to two paid days in the year to volunteer with charities that mean the most to them and through our Community Fund we supported 23 charities alongside partnering with the 2023 staff-chosen charity, The Samaritans.

We understand the importance of strategic collaborations in providing valuable perspective and opportunity. Our active partnerships with the NI Chamber of Commerce and Institute of Directors in Northern Ireland have enabled us to contribute and showcase sustainability initiatives and innovation and our relationships with the Confederation of British Industry and UK Finance contribute to fostering collective and effective responsiveness to industry changes.

Looking forward

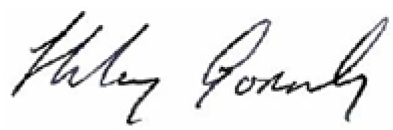
Throughout 2023 we demonstrated resilience and agility. The commitment and determination of our colleagues resulted in a strong financial performance while supporting our customers and communities to build and grow their vision of a sustainable financial future.

The mindset of continuous improvement that we have worked hard on over this last strategic cycle will position us well as we look forward to 2024 and beyond. The economic landscape, along with customers' needs and expectations, will change and our responses will continue to flex our business and focus on the resources to deliver for our customers. As we prepare to deliver on our new three-year strategy, which places an enhanced focus on serving our customers, further greening our loan book and driving greater operational efficiency. As we enter our next strategic cycle we will progress and build on the strong platforms of last year to further support our customers to transition to a greener economy and continue our own journey to net zero.

As part of strategy 2024-2026 our Parent is going to build a Group-wide dedicated Climate Capital segment effective from the beginning of 2024. AIB UK will work with our Parent on how best to complement this strategy with the UK corporate banking portfolio.

In support of our Parent, we are resolute in our sustainability commitments with ambitions to make progress on much more than our regulatory obligations. We will underpin everything we do with a focus on helping our customers and communities build a more sustainable future.

In conclusion, I am confident that 2024 will demonstrate how we have evolved our relationships, our sectors and business to achieve a sustainable business for all our stakeholders for the future.



Hilary Gormley
Managing Director

4 March 2024

Financial review

"Strong financial performance, with robust capital and liquidity which positions us well to deliver 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 19.

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 68 onwards.

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

Summary income statement	2023 £m	2022 £m
Net interest income	378	253
Adjusted other income	65	61
Total adjusted operating income	443	314
Total adjusted costs	(122)	(115)
Regulatory fees	(1)	(1)
Adjusted operating profit before expected credit losses	320	198
Net credit impairment writeback/(charge)	21	(41)
Adjusted profit before tax	341	157
Loss on sale of loan portfolio	—	(16)
Portfolio migration income/fees	—	1
Voluntary severance and associated payments	(4)	(2)
Impairment of property, plant and equipment	—	(2)
Customer redress	—	1
Portfolio migration costs	—	(3)
Profit/(loss) on disposal of property	—	2
Total adjustments	(4)	(19)
Statutory profit before tax	337	138
Tax	(68)	(23)
Statutory profit after tax	269	115

Summary balance sheet	2023 £m	2022 £m
Gross loans to customers	5,780	5,915
Expected credit losses	(133)	(197)
Net loans	5,647	5,718
Other assets	4,322	5,157
Total assets	9,969	**10,875**
Customer accounts	7,118	8,204
Other liabilities	998	1,017
Shareholders' equity	1,853	1,654
Total liabilities and shareholders' equity	9,969	**10,875**

[1] *Further analysis of these adjustments can be found on page 14.*

Summary income statement review

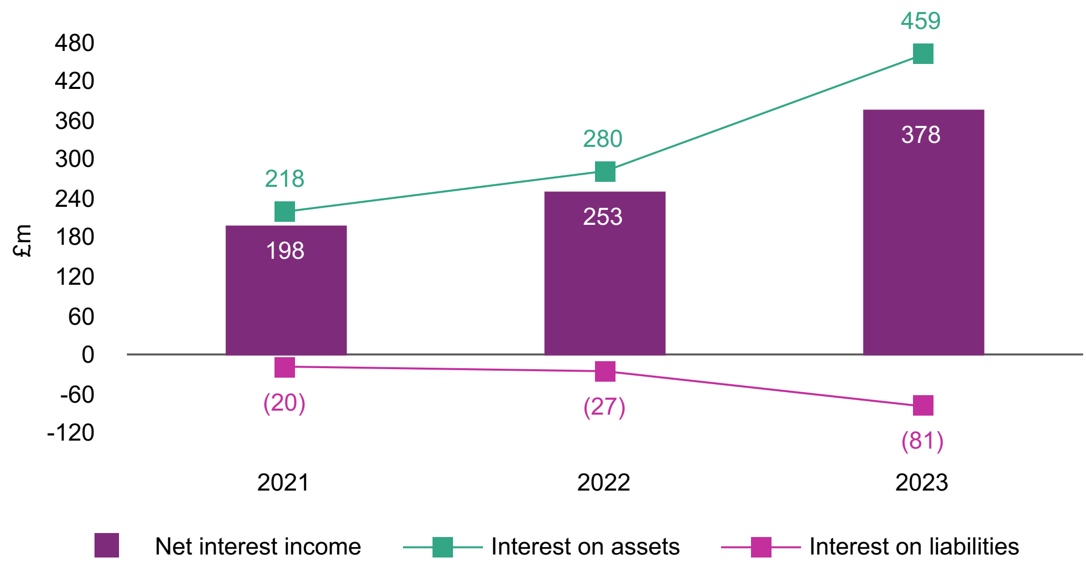
Total adjusted operating income and net interest margin ('NIM')

Total adjusted operating income	NIM	Adjusted Other income
£443m	**4.0%**	**£65m**
£314m	2.3%	£61m

Net interest income

	2023 £m	2022 £m	Change %
Net interest income	378	253	50
Average interest earning assets	9,545	10,883	(12)
	%	%	Change
NIM	4.0	2.3	1.7

Net interest income



Net interest income increased by £125m (50%) compared to 2022 due to higher income on assets as a result of the continued rising interest rate environment in 2023. This was partially offset by a reduction in average interest earning assets and higher interest rates paid on customer deposits. The net interest margin increased by 1.7% from 2.3% in 2022 to 4.0% in 2023. See page 17-18 for further detail.

Average balance sheet

	Year ended 31 December 2023			Year ended 31 December 2022		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Assets	£m	£m	%	£m	£m	%
Loans and advances from customers[1]	5,708	285	5.0	5,936	228	3.8
Balances with central banks & other interest earning assets	3,837	174	4.5	4,947	52	1.1
Average interest earning assets	9,545	459	4.8	**10,883**	**280**	**2.6**
Non interest earning assets	750			770		
Total assets	10,295	459		**11,653**	**280**	
Liabilities and equity						
Customer accounts[1]	5,927	65	1.1	6,846	24	0.3
Other interest bearing liabilities	379	16	4.1	444	3	0.8
Average interest bearing liabilities	6,306	81	1.3	**7,290**	**27**	**0.4**
Non-interest bearing liabilities	2,225			2,612		
Equity	1,764			1,751		
Total liabilities and equity	10,295	81		**11,653**	**27**	
Net interest income	9,545	378	4.0	**10,883**	**253**	**2.3**

[1] See notes 3 and 4 for further detail on page 95.

Average interest earning assets of £9.5b in 2023 decreased by £1.3b compared to 2022. There was a reduction in funding as a result of the conclusion of the strategic exit from the GB SME market coupled with market uncertainty, inflationary and cost of living pressures has led to lower balances at central banks.

Adjusted other income

	2023	2022
	£m	£m
Retail banking customer fees	11	14
Credit related fees	12	11
Foreign exchange fees	5	9
Service charge	3	3
Credit card commission	2	2
Other fees and commission	9	8
Fee commission expense	(4)	(4)
Interest rate contracts	2	8
Investment securities - equity	23	10
Other	2	—
Adjusted Other income	65	61

Adjusted other income increased by £4m (6%) to £65m, compared to £61m in 2022. This was largely due to the revaluation of the equity investment held at fair value. The sale of a non-performing loan portfolio and the GB SME portfolio in 2022 have been excluded and categorised as an APM. See page 19 for more detail.

Statutory other income was £65m for 2023, up £17m on 2022 due to £16m loss on sale of loan portfolio in 2022.

Total adjusted costs and cost income ratio

Total adjusted costs	Adjusted cost income ratio
£122m	**28%**
£115m	37%

Total adjusted costs	2023 £m	2022 £m	change %
Personnel costs	64	60	7
General & administrative costs	48	44	9
Depreciation, impairment and amortisation	10	11	(9)
Total adjusted costs	**122**	**115**	**6**
Employee numbers at period end ('FTE')	696	659	6
Average employee numbers	681	656	4

Total adjusted costs

Total adjusted costs have increased by £7m (6%) to £122m compared to 2022.

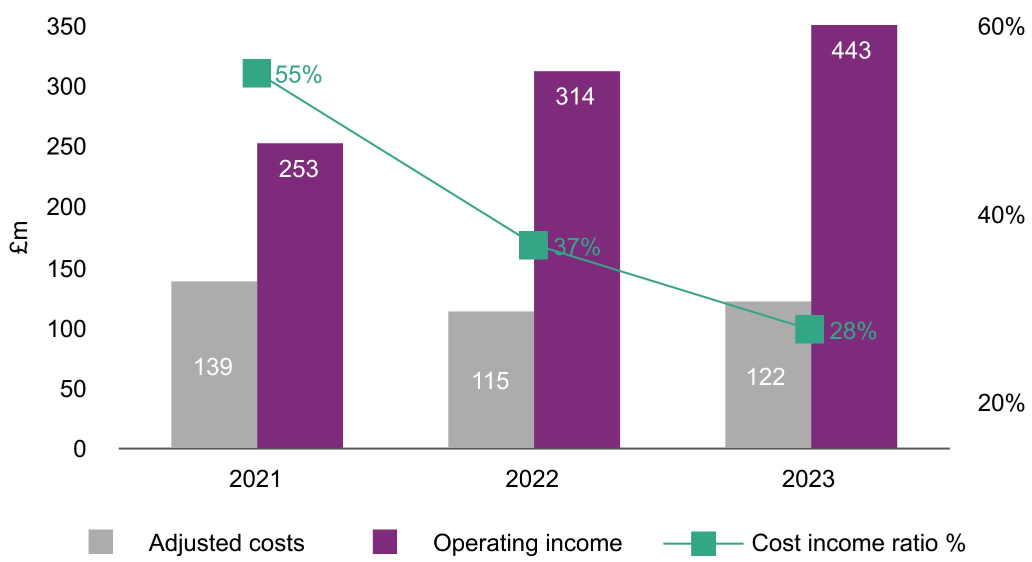
Personnel costs increased by £4m compared to 2022 driven by a combination of increased FTE's and a variable remuneration provision raised in respect of 2023, payable in 2024. (see note 10).

General and administrative costs have increased by £4m compared to 2022 due to increased professional fees primarily reflecting costs associated with implementation of consumer duty obligations and in supporting resolution of customer redress.

Depreciation, impairment and amortisation costs decreased by £1m due to property exits in 2022.

Statutory total operating expenses of £127m in 2023 increased from £122m in 2022, with above movements and increased voluntary severance and associated payment costs of £4m in 2023 (2022: £2m) partly offset by absence of significant restructuring costs in 2023. This includes £29m of allocated costs from AIB plc (2022: £30m).

Adjusted cost income ratio



Adjusted costs of £122m (up 6%) and adjusted income of £443m (up 41%) resulted in an adjusted cost income ratio of 28% in 2023, which was a reduction from 37% in 2022. Including exceptional items the cost income ratio would be 29% in 2023 reduced from 40% in 2022.

Regulatory fees

These include regulatory fees and levies of £1m (aligned to 2022) 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 writeback/(charge)

	2023	2022
	£m	£m
Net credit impairment writeback/(charge)	**21**	(41)

There was a net credit impairment writeback of £21m in 2023, compared to a £41m charge in 2022. The decrease in expected credit losses since 2022 is primarily due to an improving macro-economic outlook combined with additional charges in 2022 related to the disposal of the non-performing portfolio. See note 20(a) & (b) for more detail.

Total adjustments

	2023	2022
	£m	£m
Adjustments from other income:		
Loss on sale of loan portfolio	—	(16)
Portfolio migration income/fees	—	1
Profit/(loss) on disposal of property	—	2
Total	—	**(13)**
Adjustments from personnel expenses:		
Voluntary severance and associated payments	(4)	(2)
Portfolio migration costs	—	(2)
Adjustments from general and administrative expenses:		
Customer redress	—	1
Portfolio migration costs	—	(1)
Adjustments from impairment and depreciation of property, plant and equipment:		
Impairment of property, plant and equipment	—	(2)
Total	—	**(6)**
Total adjustments	**(4)**	**(19)**

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 19 for more detail.

Tax

	2023	2022
	£m	£m
Income tax charge	**(68)**	(23)

In 2023 there was a £68m tax charge, compared to a charge of £23m in 2022. The £68m comprised a current tax charge of £62m (2022: £20m charge) and deferred tax charge of £6m (2022: £3m charge). The current tax charge of £62m in 2023 was mainly due to the standard average tax rate charge on higher income earned compared to 2022 income earned. See note 13 for further details.

Balance sheet review

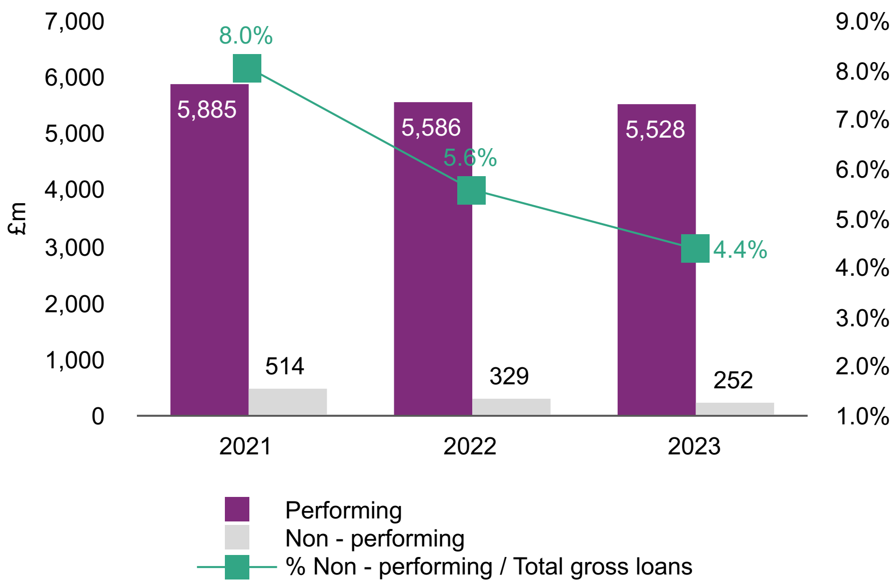
Assets

Performing loans	Non-performing loans	New lending	Expected credit losses
£5.5b	**£0.3b**	**£1.2b**	**£133m**
£5.6b	£0.3b	£1.3b	£197m

Assets	31 Dec 2023 £m	31 Dec 2022 £m	change %
Gross loans to customers	**5,780**	5,915	(2)
Expected credit losses	**(133)**	(197)	(33)
Net loans to customers[1]	**5,647**	5,718	(1)
Cash and balances at central banks	**3,229**	3,924	(18)
Intercompany loans to the parent	**201**	232	(13)
Other assets	**892**	1,001	(11)
Total assets	**9,969**	**10,875**	**(8)**

[1] *Includes £11m (2022: £13m) of intercompany to fellow subsidiaries*

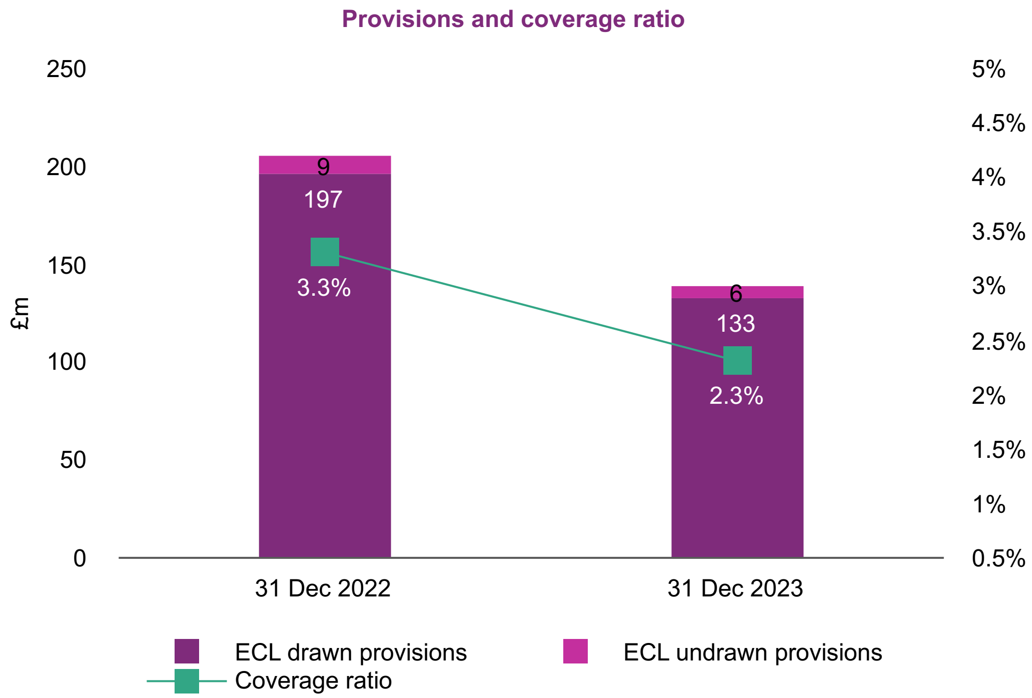
Performing and non-performing loans



Gross loans to customers

Performing loans decreased by £58m reflecting a lower level of new lending. New lending of £1.2b in 2023 declined by £111m compared to 2022. There was strong performance in the Property sector, which remained resilient and experienced year on year growth. Non-performing loans decreased by £77m driven by redemptions, individual loan sales and a non-performing portfolio disposal, partially offset by a net flow to non-performing. See note 20 (h) for more detail.

Expected credit losses



The balance sheet provision for loss allowances is on an IFRS 9 ECL basis. The ECL on loans at 31 December 2023 is £133m and ECL on undrawn facilities and guarantees is £6m. This is £67m lower than at 31 December 2022 due to the disposal of a non-performing portfolio, improving credit quality of the book, repayments and write-offs.

Summary of movements in loans to customers

The table below sets out the movement in loans to customers from 1 January 2023 to 31 December 2023.

Loans to customers	Performing loans £m	Non-performing loans £m	Loans to customers £m
Gross loans at 1 January 2023	**5,586**	**329**	**5,915**
New lending[1]	1,188	1	1,189
Redemptions of existing loans[2]	(1,075)	(192)	(1,267)
Portfolio disposals	(5)	(32)	(37)
Write-offs and restructures	—	(34)	(34)
Net movement to non-performing	(174)	174	—
Foreign exchange movements	(6)	—	(6)
Other movements	14	6	20
Gross loans at 31 December 2023	**5,528**	**252**	**5,780**
ECL allowance	(80)	(53)	(133)
Net loans at 31 December 2023	**5,448**	**199**	**5,647**

The presentation of movements above differs from the presentation of movements reported in note 20(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 20(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
£8.1b	**£1.9b**
£9.2b	£1.7b

	31 Dec 2023	31 Dec 2022	change
	£m	£m	%
Customer accounts – current accounts	4,081	5,299	(23)
Customer accounts – deposits	3,037	2,905	5
Total customer accounts[1]	**7,118**	8,204	(13)
Intercompany deposits with the parent	101	138	(27)
Other liabilities	897	879	2
Total liabilities	**8,116**	**9,221**	**(12)**
Total equity	1,853	1,654	12
Total liabilities and equity	**9,969**	**10,875**	**(8)**
Loan to deposit ratio	**79 %**	**69 %**	**13**

[1] *Includes £4m (2022: £13m) of intercompany to fellow subsidiaries*

Total customer balances decreased by £1,086m in 2023 of which current accounts reduced by £1,218m partially offset by deposits which increased by £132m. The decrease in current accounts reflects the conclusion of the strategic exit from the GB SME market in 2023, product migration as customers seek higher returns, market uncertainty, inflationary pressures and higher cost of living.

The increase in total equity of £199m to £1,853m was driven by the profit after tax recorded in 2023 of £269m and movements in cash flow hedging reserve of £73m, partly offset by a capital restructure in November 2023 which involved a share buyback programme for an aggregate amount of £250m coupled with AIB UK issuing £110m Additional Tier 1 instrument and £140m subordinated Tier 2 notes. See note 35 and 37 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 9.85% for 2023. See page 21 for more detail.

	Transitional	Fully loaded
Capital	**£m**	**£m**
CET1 at 31 December 2022	**1,531**	**1,485**
Movements:		
Share buyback	(250)	(250)
Profits for 2022	154	154
IFRS 9 transitional adjustment	(34)	—
Deferred tax	4	4
Intangible assets	2	2
CET1 at 31 December 2023	**1,407**	**1,395**
CET1 ratio at 31 December 2023	**21.44 %**	**21.29 %**
AT1	110	110
Tier 2	140	140
Total Capital at 31 December 2023	**1,657**	**1,645**
Total Capital ratio at 31 December 2023	**25.24 %**	**25.11 %**

	Transitional		Fully loaded	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Risk weighted assets	£m	£m	£m	£m
Credit risk	5,920	5,835	5,907	5,792
Operational risk	644	516	644	516
CVA	0	1	0	1
Total	**6,564**	**6,352**	**6,551**	**6,309**

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.

Capital restructure

During quarter 1 2023 approval was received to reduce the issued share capital of AIB UK from £2,384m to £596m and transfer this amount to distributable reserves. During November 2023 and following regulatory approval AIB UK bought back 555.55m of shares from AIB plc at an agreed price per share of £0.45. As part of the same capital reorganisation AIB UK issued £110m of AT1 and £140m of Tier 2 capital instruments to AIB plc. See notes 33 to 35 for further detail. Looking forward AIB UK would seek to propose an ordinary dividend payable out of 2023 attributable earnings.

Transitional CET1 ratio of 21.44% decreased in the year compared to 24.11% at 31 December 2022 primarily due to the impact of the capital restructure. Transitional Total Capital ratio of 25.24% increased from 24.11% driven by the inclusion of 2022 profits. On a fully loaded basis the CET1 ratio is 21.29% and Total Capital ratio is 25.11% at 31 December 2023, both of which are significantly in excess of the minimum requirement.

RWAs of £6,564m are £212m higher than 2022 with a rise of £85m in credit risk and £128m in operational risk driven largely by increases in total income.

Liquidity

AIB UK Group continues to have a strong funding position despite the reduction in customer liabilities during 2023. The loan to deposit ratio was 79% at 31 December 2023 (2022: 69%). 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 71% (2022: 75%) of its total liabilities and shareholders' equity.

Under Capital Requirements Regulation ('CRR'), the key liquidity metrics are the LCR and the NSFR. The LCR and NSFR minimum regulatory limits are set at 100%. As at 31 December 2023, AIB UK Group's LCR was 216% (2022: 176%) and NSFR was 139% (2022: 145%), both of which are significantly in excess of the minimum requirement.

Regulatory changes

COVID-19 relief

A suite of measures were 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% and then increased to 2% in July 2023. 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 75% to 50% during 2023.

Non-performing exposure ('NPE')

In accordance with the PRA Policy Statement PS14/23, capital and reporting requirements for NPEs have been removed for the UK from November 2023. The impact on capital for AIB UK Plc was immaterial (£0.25m).

Janet McConkey
Chief Financial Officer

4 March 2024

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 advances to customers, balances with central banks and other interest earning assets. 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 non-performing loan portfolio's; and loss from sale of AIB GB SME loan portfolio. This is not inclusive of individual loan sales. – Portfolio migration income/fees: service fee income recovered from the acquirer of GB SME portfolio post derecognition. – Voluntary severance and associated payments: the costs relating to employee exits during the year as part of targeted restructures which are specific and particular to the individuals concerned. Associated payments include employer national insurance payments in respect of voluntary severance exits across the UK restructuring programme. – 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 years. – 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 32 for more detail.
Cost income ratio	Total adjusted operating expenses excluding Regulatory fees divided by total operating income.
Loan to deposit ratio	Loans and advances 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

A new strategic cycle

2024 marks the beginning of a new three-year strategic cycle for AIB UK. Our purpose is empowering people to build a sustainable future, and, over the next three years, we will develop deeper more enduring relationships with our customers by better serving their financial needs.

AIB has a century long heritage operating in Northern Ireland and has been supporting GB corporates for over forty years.

We have transformed the business during the last strategic cycle and now have an enviable position in the UK market with strong capital and liquidity, part of a market leading group who has a clear vision for the future.

During the next strategic cycle aligned to our values we are going to empower customers to get the most from AIB UK, for the life they're after. To do this, aligned to our existing strategic pillars, we have clearly set out three strategic areas of focus; Customer first, Greening the loan book and Operational efficiency.

Customer first

AIB UK has ambitious plans to redesign and redevelop how it deals and engages with all our customers. This is supported by Group-wide enterprise solutions, which are focused on excellent customer outcomes, AIB UK, an integral part of the Group-wide change programs, all of which will drive positive customer experiences.

We will build upon our customer first ethos focused on enhancing customer experience to better meet customer needs. We are going to build deeper relationships with our customers, delivering seamless and intuitive journeys which will improve our customers experience. To support this, the Parent Group has introduced a new Chief Customer Officer executive position that will enable deep insight and focus on the customer through aligning our strategy, channels and propositions across the whole of AIB. This will improve upon the customer experience in AIB UK.

Three strategic areas of focus:

Customer First: Developing deeper relationships with our customers.	Greening the Loan Book: Amplification of Group's ESG leadership position, including new green and transition lending, net zero ambitions and enhanced focus on the Climate Capital segment.	Operational Efficiency: Enabling our colleagues to deliver for our customers by investing in capabilities and capacity.

Greening the loan book

AIB UK corporate banking will continue to operate in our remaining sectors, but we will work with AIB Group to build out and establish new capabilities / sectors aligned to our strategic areas of focus. We will support existing and new customers with their transition requirements, remaining the Banking Partner of Choice for UK Corporates in our chosen sectors.

Operational efficiency

We must and will improve our digital capability, across agile and resilient enterprise platforms, that delivers for customers' financial needs, improving their banking experience while offering and delivering our products and services in a proactive, seamless and innovative manner.

The world is changing at pace, as people and businesses strive to build a more sustainable life, and AIB UK will support them on every step of this journey.

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 six customer journeys at key moments of truth for our Northern Ireland customer base
	UK balance sheet growth	Net balance sheet growth for lending in 2023
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.	**People resources**	Number of full time employees across AIB UK in a given period
	Absolute cost base	Operating costs excluding exceptionals and bank levies
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 fulfil our purpose and execute our strategy. We enable talent effectiveness through a diverse and inclusive culture that is built on accountability, collaboration and trust.	**Gender balance**	% females in senior management roles
	Culture	Focus on how satisfied are employees with AIB UK as a place to work
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**	Value of new lending supporting the transition to a low carbon economy

Sustainability

Sustainable communities

Sustainable communities is a key 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 targets, in which AIB UK contributes to the achievement of, are outlined below.

Specific details on AIB UK contribution to these targets will be revisited in light of AIB's new Climate Capital segment. Notwithstanding this, AIB UK will continue to support UK Corporates in our chosen sectors with their green and transition lending needs.

Climate and environmental action

– Lend responsibly and steer our portfolios towards net zero by 2040 (Agriculture by 2050).
– Reach net zero in own operations by 2030.
– Increase consideration and management of climate and environmental- related risks.
– Contribute to protecting nature and safeguarding natural ecosystems/habitats.

Societal and workforce progress

– Put our customers first, always treating them fairly and with respect.
– Continue to proactively contribute to a robust and sustainable future economy and society.
– Empower own workforce and foster a safe, inclusive and supportive work environment.
– Positively support Sustainable communities and local initiatives.

Governance & responsible business

– Facilitate a culture that promotes our values and fosters engagement.
– Board and management to work to the highest standards to deliver long-term value.
– Operate responsibly at all levels, while managing cybersecurity, data security and operational resilience risks.

Over the next three years, we will lean into our purpose of empowering people to build a sustainable future by way of three interconnected priorities: Customer First; Greening the Loan Book; and Operational Efficiency. Our five strategic pillars remain unchanged.

For further information on the Parent Group's performance against its Sustainable Communities objectives see the AIB Group plc's Detailed Sustainability Report[2].

Climate and environmental action

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 to meet goals set by the Paris

(2) *https://aib.ie/sustainability*

Agreement and this is why, in November 2023, the Parent Group tripled its Climate Action Fund to €30bn by 2030. Through this, AIB UK can support the transition to a low carbon economy by providing products and services that support our customers to reduce their own carbon footprint.

Green lending

As part of the Parent Group's sustainability strategy, green and transition lending will account for 70% of new customer lending across AIB Group by 2030.

In 2023, 31% (2022: 40%) of AIB UK's total new lending was green. 29% of total new mortgages were provided to energy efficient homes (EPC rated A or B) (new metric for 2023) and 28% of new lending for Commercial Real Estate was green (new metric for 2023).

The AIB Sustainable Lending Framework 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 Group 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.

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.

Our carbon emissions

In compliance with the Streamlined Energy & Carbon Reporting (SECR) regulations, we have set out below the energy consumption and related carbon emissions which result directly from the operations in AIB UK. This also 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 1st January to 31st December (inclusive). In reporting this data, we have followed the UK Government Environmental Reporting Guidelines. We have used the Greenhouse Gas ('GHG') Protocol Corporate Accounting and Reporting Standard (revised edition) and predominately 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.

Through our environmental and energy policies, we specify how we will meet our responsibility to protect the environment, increase our energy efficiency and tackle our operational emissions. We ensure we take environmental protection into account in accordance with ISO 14001 and 50001 international standards. This approach has enabled us to manage our estate in a sustainable manner by proactively implementing best in class environmental and energy practices, with homogeneous processes and indicators for rigorous monitoring. In 2023, our operations in Northern Ireland were re-certified to both standards for another three years.

While we are not operating in an emissions intensive sector, we recognise our property portfolio nonetheless could have a significant footprint if not actively managed. Since 2018, we have embarked on a strategic review of our operations starting with those based in older, inefficient buildings and any new buildings we intend to occupy must have high energy efficiency and limited environmental impact. Therefore, we confirmed a relocation of our head office in London to a newly acquired office space situated in a building with BREEAM "Excellent" and EPC "A" ratings. The move will be completed within H1 2024.

Furthermore, in 2023, we successfully launched our first "Winter Energy Savings Campaign". Along with the operating changes made by our maintenance partners, UK retail staff were asked to be mindful of energy wasting actions. Thanks to their support, we achieved a significant reduction in overall energy consumption from our UK locations in comparison to previous years.

Excluding energy use in mobile combustion activities, during financial year 2023, initiatives to raise awareness and strategic changes to the Property Estate Portfolio have delivered over 200,000 kWh of energy savings.

OUR CO_2 EMISSIONS (1 January to 31 December)[2]	2023	2022	2021	2020	2019
Location-based carbon emissions					
Total tCO_2e[1]	**TBC[10]**	**1,244**	**1,449**	**1,445**	**2,858**
Total Scope 1 (natural gas, heating oil & car fuel	215	186	286	228	282
Total Scope 2 (purchased electricity)	313	420	448	446	564
Total Scope 3 (rental car & staff business car travel)	see note 10	639	715	771	2,012
Out of Scope (Biogenic emissions - from biomass	0	0	11	43	16
Market-based carbon emissions					
Total tCO_2e[1]					

OUR CO_2 EMISSIONS (1 January to 31 December)[2]	2023	2022	2021	2020	2019
Total Scope 2 (purchased electricity)	150	0	0	0	0

Intensity Ratio[8]					
Total Full Time employees (FTE)	681	672	922	997	1,026
Total CO_2e per FTE (Location-based)	see note 10	1.85	1.57	1.45	2.79
Scope 1&2 per FTE (Location-based)	0.78	0.90	0.80	0.68	0.82

Energy Consumption (kWh) [9]	2,432,721	2,727,004	3,456,101	3,322,943	4,036,114

Notes:

1. A GHG source is any physical unit or process that releases GHG into the atmosphere:
   a. Direct (Scope 1) GHG emissions are from sources that are owned or controlled by AIB. Direct (Scope 1) include AIB UK combustion fuels, 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.
   b. Energy indirect (Scope 2) GHG emissions can result from the generation of purchased or acquired electricity, heating, cooling, and steam consumed. Indirect (Scope 2) includes consumption of all AIB UK purchased electricity.
   c. 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.
   d. Out of Scope (biogenic emissions): CO_2 Emissions from the combustion or biodegradation of biomass.
2. The carbon reporting year for our GHG emissions is 01 January to 31 December. Our carbon reporting is aligned with our financial reporting. Our Scope 1 & 2 emissions for 2023 are 528 tCO_2e. Scope 3 emissions are reported one year in arrears. AIB Group 2023 full GHG inventory will be disclosed in our CDP 2024 report.
3. The AIB carbon footprint was calculated using the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition (the GHG Protocol); the UK Government's conversion factors for greenhouse gas reporting and other emissions factors as required.
4. The GWPs used in the calculation of CO2e are based on the Intergovernmental Panel on Climate Change (IPCC) Assessment Reports over a 100-year period.
5. We have adopted the operational control approach on reporting boundaries. They include all locations where AIB are responsible for the utility costs. Estimations have been included where necessary.
6. In line with the GHG Protocol, our emissions are presented in tonnes of carbon dioxide equivalent units (tCO2e) and cover the Kyoto 'basket' of seven greenhouse gases when available: carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFC), perfluorocarbons (PFC), sulphur hexafluoride (SF6) and nitrogen trifluoride (NF3).
7. A third-party independent verification, based on ISO 14064-3, was completed for Group level emissions.
   a. Our verification statements are publicly available at www.aib.ie/sustainability. A copy of our historical GHG verification statements is available in our annual CDP submissions.
   b. 2023 Scope 1 & 2 verification was based on data extrapolation to account for the 12 months of the reporting period.
8. Intensity ratio calculations have been calculated using Full Time Employee (FTE) equivalent figures for the UK as per AIB Sustainability Reports.
9. 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. 2022 energy figures have been updated to allow the incorporation of 12 months of actual data. Note that 2023 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.
10. 2023 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.
11. 2022 GHG 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.
12. In 2023 AIB refined its market-based methodology to reflect updated information on 3rd party energy suppliers.
13. Figures are rounded.

Societal and workforce progress

AIB UK endeavours to achieve a fairer society that is socially and economically inclusive. Some key highlights in 2023 include the following:

– We supported access to affordable homes through our lending to social housing. These loans form part of AIB's Social Bond Issuance;

– We donated £155,000 (2022: £124,500) to charities of our customers' and employees' choice through our Community Fund, colleague fundraising initiatives and employee matched funding. The wide range of communities and charities supported included Guide Dogs NI, Kids Together Belfast, Cancer Research, Cruse Bereavement Support, Surviving Economic Abuse, Mencap, Wales Air Ambulance, as well as our charity partner, The Samaritans;

– Our colleagues spent over 677 hours (2022: 285) volunteering through their entitlement to take two volunteering days per year, supporting great causes across our communities including: Limavady Food Bank, Cash for Kids Mission Christmas, The Felix Project, Eco Rangers, and Assisi Animal Sanctuary;

– We welcomed Women's Aid NI and GamCare (a charity providing information, advice, and support for those affected by gambling harms) to host workshops during our first internal Customer Vulnerability Awareness Week, a week of highlighting to our colleagues the potential vulnerabilities our customers might experience and the support and services available to support them;

– We introduced a new Domestic Abuse Exception Process to support existing personal customers and staff to obtain lending if they have poor credit scoring due to a domestic abuse situation;
– We continued to deliver the *Successful Sustainability with AIB* programme in partnership with the Northern Ireland Chamber of Commerce and Industry. In 2023, supported the upskilling of more then 70 local businesses on topics such as sustainability in the supply chain and the circular economy; and
– The Parent Group published its 8th annual statement on Modern Slavery, demonstrating how we continue to use the opportunities that are available to us to mitigate against human rights breaches in both our business and supply chain.

Governance and responsible business

Our future sustainability depends on our ongoing investment in our business, people and processes. Work undertaken in 2023 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:

– A revised mandatory training module on sustainability was launched covering; the global sustainability agenda and what it means for business; the climate crisis, key physical and transition risks and the solutions required; AIB Group's sustainability strategy and strategic response to climate impacts; and the colleagues own role in the business and what they can do to make a difference;
– We set-up an Inclusion and Diversity working group in which colleagues have volunteered to lead on and support the development of our internal and external considerations and actions to drive a more diverse and inclusive culture for our colleagues and customers;
– 55% of the AIB UK Board of Directors are female and 40% of the Parent Group's Board of Directors are female;
– 46.5% of colleagues in senior management roles (defined as level 5+) within AIB UK are female;
– The Parent Group continued to publish it's annual Health and Safety Report, which can be found under "Related Codes & Policies" on the www.aib.ie/sustainability webpage;
– Extended our private healthcare provision to colleagues in NI;
– We introduced up to ten days paid leave per annum for those with caring responsibilities;
– We replaced our Marriage Leave Policy with an Exceptional Life Event Policy, offering all colleagues the opportunity to take five days leave for a significant life event rather than just to those who marry;
– In regards to customer feedback, our Net Promoter Score for 2023 was +41 (2022: +34); and
– Launched the new AIB Business (iBB) app for business customers in Northern Ireland as part of our Customer Credit Transformation Programme, allowing them to check balances and transactions, as well as make and authorise most of their payments on the go.

Climate-related financial disclosures

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. Our Parent Group was the first Irish bank and one of the first Irish companies to become an official supporter of the Taskforce on Climate-related Financial Disclosures ('TCFD') which of this reporting year, is now a requirement to disclosure against the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022. The Parent Group's TCFD disclosure can be found in the AIB Group plc Annual Financial Report at www.aib.ie/investorrelations

AIB UK's disclosure against the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022

Governance
(a) a description of the company's governance arrangements in relation to assessing and managing climate-related risks and opportunities

Roles and responsibilities of the Parent Group Board, AIB UK Board and their relevant sub-committees in managing financial risks from climate change have been clearly articulated.

Parent Group Board and Board level committees
Overall responsibility for the Parent Group's achievements of its climate-related risk objectives lies with the Parent Group Board, where AIB UK is represented by Helen Normoyle who is a Non-Executive Director of both the Parent Group and AIB UK Boards.

AIB UK is represented at other Parent Group-level forums through the following:
– The AIB UK Board Chair is an attendee of the Parent Group's Board Risk Committee.
– The Chair of the Parent Group's Sustainable Business Advisory Board Committee, Helen Normoyle, is also a member of the AIB UK Board.
– The AIB UK Managing Director is a member of the Executive Committee and the Group Risk Committee.

- The AIB UK Head of Customer Support, Insights and Enablement, who has SMR responsibilities for climate risk, is a member of the Group Sustainability Committee ('GSC').

The Sustainability Regulatory Change Programme evolved in 2023 to become the ESG Transformation Programme (ESG TP). This is an enterprise change programme, with a series of workstreams, covering topics from compliance & oversight to data infrastructure and risk management.

The ESG TP Steering Committee supports the implementation of the programme of work covering the ESG regulatory requirements, including PRA climate-related requirements. The ESG TP Steering Committee is chaired by the Group Head of ESG Transformation and the Chief Strategy & Sustainability Officer is its Executive Sponsor. AIB UK has representation across all workstreams ensuring that the UK is properly considered in all decisions and that programme deliverables are embedded in the UK. The UK Head of Sustainability is a member of the Steering Committee.

AIB UK governance structure
Responsibility for AIB UK's achievement of its climate-related objectives lies with the AIB UK Board and its sub-committees.

The role of the AIB UK Board Risk Committee in relation to ESG is as stated in its terms of reference. It receive updates regarding the effectiveness of the Company's policies and programmes which relate to identifying, managing and mitigating Environmental, Social and Governance ('ESG') risks , including climate and financial risk, in connection with the Company's operations and ensures compliance with regulatory requirements and industry standards in this regard; and it reviews the output of climate risk stress testing on a periodic basis.

The UK Risk Committee receives updates regarding the effectiveness of policies and programmes which relate to climate risk, in connection with AIB Group's operations and ensuring compliance with regulatory requirements and industry standards.

SMR accountability and 1LOD ownership lies with the Head of Customer Support, Insight and Enablement and the UK Head of Sustainability embeds the Parent Group's sustainability deliverables across the UK organisation.

During 2023, enhancements to UK Board's oversight of climate strategy and risk management were delivered, including UK Board monitoring of climate risk, definition of the climate risk governance model for AIB UK and a high-level assessment of training needs across teams, committee members and the UK Board. Work will be ongoing over 2024 to embed roles and responsibilities as well as the 2LOD target operating model for the recently identified Climate and Environmental material risk.

Risk management

(b) a description of how the company identifies, assesses and manages climate-related risks and opportunities
(c) a description of how processes for identifying, assessing and managing climate-related risks are integrated into the company's overall risk management process
(d) a description of -
(i) the principal climate-related risks and opportunities arising in connection with the company's operations, and
(ii) the time periods by reference to which those risks and opportunities are assessed

The management of financial risks from climate change are integrated into our overall approach to risk management and can arise from:

Physical risk: defined as the potential negative financial impact to AIB Group of a changing climate, including more frequent extreme weather events and gradual changes in climate, as well as environmental degradation, such as air, water and land pollution, water stress, biodiversity loss and deforestation. Physical risk is categorised as acute when it arises from extreme events including droughts, floods and storms, and chronic when it arises from progressive shifts, such as increasing temperatures, sea-level rises, water stress, biodiversity loss, land use change, habitat destruction and resource scarcity. This can directly result in damage to property or reduced productivity, or indirectly lead to subsequent events, such as the disruption in supply chains.

Transition risk: defined as the potential negative financial impact that can result, directly or indirectly, from the process of adjustment towards a lower-carbon and more environmentally sustainable economy. This could be triggered by the adoption of policies and legal requirements including regulations on products and services as well as, policy support for low carbon alternatives. It encompasses the risks associated with implementing technological advancements to replace existing products with lower emission options as well as changes in market sentiment relating to customer demands and preferences.

Liability risk: Physical risk, transition risk and non-compliance of regulations could potentially lead to further financial exposures for AIB Group, stemming directly or indirectly from legal claims or regulatory enforcement. Both at the Parent Group level and UK-level, the management of climate risk is integrated into our overall approach to risk management.

A part of the 2023 AIB UK Material Risk Assessment ('MRA'), Climate and Environmental ('C&E') risk was identified as a material risk to AIB UK due to its importance as a key strategic pillar to the Parent Group, its pervasiveness to other risks, societal expectations, the pace and volume of regulatory developments and its increasing significant impact over time as well as potential associated reputational risks. Key findings that supported this identification were that C&E risks have the potential to significantly impact AIB Group in the short (<3 years), medium (>=3-10 years) and long term (10+ years) and that both transition and physical risk are already in the top ten risk drivers over a three year timeframe.

Climate risk is defined as the potential negative impacts due to climate change on AIB Group. This includes risks posed by direct exposure to climate change, and indirect exposure through customers and suppliers. Climate risk includes the impacts that the business and its customers and suppliers have on the climate and the impact from the climate on AIB Group and its customers and suppliers.

Environmental risk is defined as the potential negative impact of the activities or actions of the business, its customers or suppliers, directly or indirectly to the naturally occurring living and non-living components of the Earth, together constituting the biophysical environment. Changes in the state of nature (quality or quantity), may act as drivers on AIB Group's financial performance through risk events and could result in changes to the capacity of nature to provide social and economic functions.

The AIB UK Board approved C&E Risk as a material risk to the business in February 2024.

The ESG Framework ensures that the Parent Group's approach to the management of ESG is clearly defined and well understood, from the Parent Group Board and down through all operations, including AIB UK. In line with the Parent Group's continued progress, the ESG Framework will be retired over the course of 2024 and the agenda will be managed through the new C&E Risk Framework and Policy (which was approved by the Parent Group Board Risk Committee in December 2023). It sets out the principles, roles and responsibilities, governance arrangements and processes for C&E risk management across across the Parent Group and AIB UK. It sits within the overall risk architecture and is one of the material risk frameworks supporting the Risk Management Framework. It is underpinned by the C&E Risk Policy, ensuring that C&E risk is managed in line with our overall purpose, the five key strategic pillars as well as the both the Parent Group's and AIB UK's strategic objectives.

Due to the pervasive nature of C&E risk and its impact on other principal risks, the C&E risk management aspects for these principal risks are incorporated within their relevant risk frameworks and policies, including environmental sector specific considerations within the credit risk policies and regulatory related risks within the regulatory compliance policies.

For more in-depth information on the Parent Group's MRA process and outcomes, see the Risk Management section of the AIB Group plc Annual Financial Report[1.]

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

Strategy

(e) a description of the actual and potential impacts of the principal climate-related risks and opportunities on the company's business model and strategy
(f) an analysis of the resilience of the company's business model and strategy, taking into consideration different climate-related scenarios

AIB UK has just reached the end of a three-year cycle in which the aim was to simplify, strengthen and streamline our business in the interest of all our stakeholders, while backing our customers to achieve their dreams and ambitions. Our upcoming three-year cycle will focus on putting customers first, greening the loan book and operational efficiency.

The impact of C&E risk is incorporated in to the Group-wide Stress Testing Framework by conducting a comprehensive scenario analysis to evaluate the potential impact of various climate-related events on AIB Group's portfolios, operations and overall financial position. Scenario testing enables the assessment of the interconnectedness of risks, considering not only direct physical risks but transition risks arising from shifts in market dynamics, investor sentiment and regulatory landscapes.

The climate stress testing approach and associated models consider the impact of physical and transition risks across a number of scenarios on our exposures. The initial scope of climate stress testing activities and climate modelling is primarily focused on the credit risk implications for the loan portfolio via both transition and physical risk. This is where the most material impact of climate stresses impacts the Parent Group with the approach covering all customer loans and advances on the balance sheet.

Refer to the TCFD Disclosure in the 2023 AIB Group plc Annual Financial Report for further information on the impact of the risks and opportunities on the Parent Group's business strategy and model[1.] AIB UK will continue to evolve the methodologies and frameworks used to assess the impact of climate-related risks on it's business model and strategy in 2024.

Metrics and targets

(g) a description of the targets used by the company to manage climate-related risks and to realise climate-related opportunities and of performance against those targets; and
(h) a description of the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and of the calculations on which those key performance indicators are based

Science based targets ('SBTs') have been set for Scope 3 emissions, covering 75% of AIB Group baseline loan book, and 50% of the UK baseline loan book (Mortgage portfolio (14%), CRE lending book (16%), Electricity Generation (9%) and the Corporate Portfolio (13%).

The assessment of the financial impact associated with SBTs to 2030 and net zero commitment to 2040 (and 2050 for agriculture) is now a formal part of business and financial planning. AIB UK considers the impact on projected revenues, costs and margins associated with meeting the SBTs over the period of the plan and outlook to 2030.

The AIB Sustainable Lending Framework 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. In 2023, 31% of AIB UK's total lending was green and the 2024-2026 financial plan includes clear green new lending targets.

Within AIB UK, progress towards achieving sustainability targets is monitored via a suite of ESG metrics, including:

- New Green Lending (GBP/£m v target)
- New Green Lending (% of total new lending v target)
- New lending to UK Residential mortgages for Energy Efficient Homes (% v target)
- New lending to UK CRE for Energy Efficient Buildings (% v target)
- Emission intensity maintenance for UK Electricity Generation (g CO_2/KWh) (reported biannually v target)
- Exposure to counterparties with >500 FTE covered by SBTs (% v target)
- New lending to sectors with higher transition risk (%)

Climate & Environment (C&E) Risk was identified as a material risk for AIB UK as part of the 2023 UK material risk assessment. Activity will be ongoing in 2024 to build on existing work to embed roles & responsibilities and operating model for climate environmental risk. In the meantime, C&E risks are monitored through internal and external reporting across the Parent Group.

AIB UK's climate risk appetite is defined for 2024 via seven qualitative statements and two risk metrics, namely;

- Residential Mortgages rated A or B (% of new lending)
- Commercial Real Estate rated A or B (% of new lending)

Risk metrics are reported quarterly. The escalation process is commenced in the event of a breach of either the watch trigger or limit for any of the metrics. This ensures escalation within an approved timeframe, when appropriate.

Non-financial and sustainability information statement

In AIB UK, policies and codes are in place to enable us to empower people to build a sustainable future and operate in line with our strategic priorities; Customer First; Greening the Loan Book; and Operational Efficiency.

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 consolidated report on page 3 and within the Sustainability section.

Information related to our business model can be found in the Our Strategy section on pages 20 - 21.

Climate and Environment risks are a principal risk across AIB Group. Read more on pages 25 - 28 in AIB UK's mandatory-climate related financial disclosure and our Risk management report from page 37.

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 22 • Our approach to climate and environment - pages 22 - 24 • Our carbon emissions - pages 23 - 24 • Mandatory employee training - page 24 • Climate-related financial disclosures - pages 25 - 28 • AIB Group plc Sustainability Report[3]
Sustainable Lending Framework[1]	Our Sustainable Lending Framework (SLF) enables the classification of new customer loans as green, transition or social. The SLF has developed to provide transparency on the criteria that AIB employs in classifying and reporting on green and transition lending to help us achieve our ambition that 70% of new lending should be green or transition by 2030. It is based on industry best practice and is aligned, where applicable, to the EU Taxonomy regulation and will evolve as required for	• Green new lending performance - page 3 • Green lending - page 23 • Climate-related financial disclosure - pages 25 - 28 • AIB Group plc Sustainability Report[3]
Green Bond Framework[1]	The purpose of our Green Bond Framework is to enable AIB, or its subsidiaries, to issue green bond instruments, which may include covered bonds, senior bonds (preferred or non-preferred), subordinate bonds and medium term notes, to finance and/or refinance green eligible loans with a positive environmental benefit. Our Framework is based on the ICMA Green Bond Principles 2021, including the updated Appendix I of June 2022, and defines the portfolio of loans eligible to be funded by the proceeds of Green Bonds issued by AIB. Our Framework is approved by both the GSC and Treasury Management Risk Board.	• Green lending - page 23 • AIB Group plc Sustainability Report[3]
ESG Framework[2]	The purpose of the ESG Framework is to ensure that our overall approach to the management of key components of the agenda are clearly defined and well understood. This is to enable the achievement of our strategic objectives in line with our risk management framework while delivering on regulatory requirements and the commitments made to all our stakeholders.	• Sustainable Communities objectives - page 22 • Climate-related financial disclosure - pages 25 - 28 • AIB Group plc Sustainability Report[3]
Key material risks: Climate and Environment; Strategic Business Model; Operational; 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.	• Our employees - page 35 • Leadership and oversight - page 46 • Board Audit Committee - page 49 • Code of conduct - page 57
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.	• Suppliers - page 59 • 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 47 • Board Audit Committee - page 49 • Code of Conduct - page 57 • 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.	• Gender balance performance - page 3 • Talent and culture KPIs - page 8 • Inclusion and Diversity Working Group - page 24 • Board Diversity Policy - pages 47 and 51
Key material risks: Conduct and Culture; 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.	• Suppliers - page 59 • 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.	• Conduct risk - page 58 • AIB Group plc Sustainability Report[3]
Socially Responsible Investment Bond Framework[1]	The purpose of our SRI Bond Framework is to fund domestic and international projects aimed at global sustainability, carbon emissions reduction and social improvement, all under the overarching themes of ESG. As an established buy-to-hold investor, AIB can promote and support the transition to a more sustainable global economy and contribute to positive environmental and social change via the sustainable bond market. 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 14% of AIB's total Investment Securities in the medium-term (AIB's total Investment Securities are disclosed in AIB Group plc's Annual Financial Report[4]). Our Framework is approved by Treasury Management Risk Board and noted at GSC.	• AIB Group plc Sustainability Report[3]

Social Bond Framework[6]	The purpose of the Social Bond Framework is to enable AIB, or its subsidiaries, to issue social bond instruments, which may include covered bonds, senior bonds (preferred or non-preferred), subordinate bonds and medium terms notes, to finance and/or refinance social eligible loans with a positive societal benefit. Our Framework is based on the ICMA Social Bond Principles 2021, including the updated Appendix I of June 2022 and defines the portfolio of loans eligible to be funded by the proceeds of Social Bonds issued by AIB. Our Framework is approved by both the GSC and Treasury Management Risk Board.	• 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 AIB Group and sets out the principles and governance arrangements for the identification, assessment, measurement, management, monitoring and reporting of credit risk within AIB 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.	• Green lending - page 23 • Climate-related financial disclosure - pages 25 - 28 • Board Risk Committee - Page 50
Key material risks: Climate and Environment; Operational; Credit; and Conduct and Culture		

Respect for Human Rights		
Modern Slavery and Human Trafficking Statement 2023[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.	• Economic and social inclusion - page 24 • Board approval of Modern Slavery Statement - page 35 • Human Rights Commitment[1]
Key material risks: Regulatory and Compliance; Operational; and Conduct 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 49 • Board Risk Committee - page 50 • Financial crime prevention - page 58
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.	• Conflicts of interest - page 47
Key material risks: Regulatory and Compliance; Operational; and Conduct and Culture		

[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.*
[6] *Social Bond Framework - https://aib.ie/investorrelations/debt-investor*

Section 172(1) statement

A balance of stakeholder interests is deemed to be critical to any decision taken by the Board. The relevance of each of the stakeholders defined in Section 172 to the decision-making process, and the method of engagement, may vary depending on the deliberations being undertaken by the Board. Throughout 2023 the Board's key stakeholders remained the same as they were in 2022. Certain stakeholder engagement is conducted at a Parent Group level to engage on matters of Parent Group-wide significance to ensure an efficient approach.

In their discussions and decisions during the year 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 consequence of any decision in the long term. The Board is cognisant of their responsibility to run the Company for the long-term sustainable benefit of the shareholders and in doing so, the Directors consider the interests of key stakeholders through all Board deliberations. All Management proposals tabled for decision require clear articulation of the potential impacts of those decisions under each of the strategic pillars, which drives consideration of the interests of stakeholder groups within decision making processes. During the year, the Board had particular regard to the long-term success of the Company in its discussions on strategy.

The interests of the company's employees. The Board is fully aware that our people are the key resource and enabler to deliver our overall ambition and strategy in a manner underpinned by our values. Accordingly, the Board and its Committees ensure that when it is making decisions it has due regard for its employees.

The need to foster the company's business relationships with its suppliers, customers and others. The Board recognises that our customers are at the heart of our organisation. In considering decisions, the Board takes into account the impact of decisions on customers and that the Company meets the full range of their financial needs conveniently and responsibly. In respect of our suppliers we seek to do business responsibly and sustainably, and to live by our economic, social, ethical, and environmental values and to this end we have a Responsible Supplier Code in place. All suppliers are provided with our standard terms of purchase which details our payment terms and the Company complies with the Payment Practices Reporting requirements.

The impact of the company's operations on the community and the environment. The Board considers the impact of its decision making on the community and the environment pursuant to its strategy to deliver a more sustainable future for all. The Board approved the Environmental, Social and Governance framework during the course of the year which describes how the Company incorporates ESG considerations into its business, risk management and governance processes which in turn helps support our customers, colleagues and wider society on the sustainability journey.

The desirability of the company maintaining a reputation for high standards of business conduct. The Board maintains open and constructive engagement with its regulators at all times with respect to business conduct matters. The Board Risk Committee monitors key updates from Management and the Board has applied oversight to the Competition and Market Authority's Service Quality Metrics and the progress of our Consumer Duty programme. The financial reporting framework that has been applied in the preparation of the AIB Group UK financial statements is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB.

Decisions made during the year

The following are some of the decisions made by the Board this year which demonstrate how section 172 matters have been taken into account as part of Board discussions and decision-making. In arriving at its decisions during the year, the Board assessed and challenged the implications of the revised strategy in accordance with its Strategic pillars which are aligned to our stakeholder groups.

Decision	What Happened
Strategy 2024-2026 Our Shareholder Our Regulators Our Customers Our Colleagues	During the course of 2023 the Board exercised strong oversight of the implementation of the previous 2020-2023 strategy, the areas of success and areas for further development. The 2024-2026 Strategy was approved in November 2023 following input from all Board and UK Leadership Team members. During our next strategic cycle and aligned to our values, we will empower the customer to get the most from AIB for the life they're after. To do this we have clearly identified the strategic areas of focus; Customer First, Greening the Loan Book and Operational Efficiency. AIB Group has introduced a new Chief Customer Officer executive position that will enable deeper insight and focus on the customer through aligning our strategy, channels and propositions across the whole of the AIB enterprise. This will improve upon the customer experience in AIB UK, with enterprise solutions, journeys and propositions and will build upon the AIB UK brand. It is recognised that we need to do to more to help combat climate change and our ambition to be a driving force in the transition to a lower carbon future, AIB Group is building an enterprise wide dedicated Climate Capital segment. AIB UK will support our existing and new customers with their transition requirements and aspire to be the banking partner of choice for UK corporates in our chosen sectors. We must and will improve our digital capability, across agile and resilient enterprise platforms, that delivers for customers' financial needs, improving their banking experience while offering and delivering our products and services in a proactive, seamless and innovative manner. As part of the strategy formulation, the Board considered several matters which informed the direction of the strategy centred around (i) purpose, ambition and culture, and (ii) drivers, challenges and opportunities. The Risk function performed a full second line of defence review of the strategy which focused on the comprehensiveness, appropriateness and operational capacity considerations of the strategy. All key strategic initiatives and key enablers of the strategy were reviewed.
Capital Re-structure & Liquidity Management Our Shareholder Our Regulators	In recognition of the fact that the Company had maintained a strong capital position well in excess of its regulatory requirements in recent years the Board approved a proposal to execute a capital re-structure in line with the Company's capital management. Execution was completed by way of a capital reduction followed later in the year by a capital re-organisation which included a capital distribution by way of share buyback from the Parent and the issuance of Additional Tier 1 Securities and a Subordinated Tier 2 instrument. The Regulator was engaged at an early stage of the proposal to promote an optimal capital stack. The capital restructure further emphasised the beneficial nature of the Company to its Parent entity by demonstrating that capital could be effectively returned and thus the Parent was supportive of the action. Upon careful consideration of the matter, including the likely consequences of the decision in the long term, the Board agreed that the proposal would promote the success of the Company.

Decision	What Happened
Appointment of new Directors Shareholder Regulator Customers Colleagues Society	During the course of 2023 there were three key changes to the composition of the Board of Directors, namely the appointment of new Committee Chair's to the Board Audit Committee and Technology and Data Resilience Committee (formally the Technology and Operational Resilience Advisory Committee) and a new Board Director. The appointment process was led by the Board's Nomination Committee with careful consideration given to how the appointments would meet the needs of our customers, employees and Regulators. This was done through a careful review of the skills, experience and knowledge that each of the new appointees would bring while strengthening the existing Board and ensuring the successful promotion of the Company. The appointments were recommended to the Parent's Nomination Committee. In the case of Chair of the Board Audit Committee, the Parent's Board Audit Committee Chair was also engaged in the process prior to final approval by the AIB UK Board. The required regulatory approvals were sought and obtained. Consideration was given to ensuring that the Board maintained its gender balance and efforts were made to expand the Board's diversity beyond gender but this was unsuccessful on this occasion. The Board remains committed to increasing its diversity and demonstrating to colleagues, customers and wider society its continued commitment to both diversity and this commitment is also clearly set out within the Board's Diversity policy which was approved during the course of the year.

Stakeholder engagement

The way in which the Board engages with its stakeholders varies and ranges from direct engagement to receiving management reports and updates on relevant matters which assist the Board in understanding the impacts of the Company's operations on its key stakeholders.

The table below 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 its Committees. 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.

Our Stakeholders

Our Customers

Who?
Our purpose is to empower our retail, business and corporate customers to build a sustainable future while remaining at the heart of their financial lives. The customer first approach is a core pillar of AIB's strategy.

How we engage
The Customer First approach is a core pillar of AIB's strategy and the Customer First Recharge programme commenced in April 2023 with the Board receiving regular updates on its progression. Positive progress and momentum has been made in relation to the Financial Conduct Authority's Consumer Duty. The Board appointed a Consumer Duty Champion, with the Bank complying with the duty at the end of July 2023 for its on sale products and services. The Bank's Consumer Duty Programme continued in H2 2023, monitoring and closing actions which are improving customer experiences and outcomes.

The Bank signed up to the UK Mortgage Charter commitments during the course of 2023 to support those customers requiring extra support in meeting their repayments. Customers have been and continue to be encouraged to engage with the Bank so we can help identify the right support required for them and their circumstances.

The customer has also been at the fore of the operational resilience agenda as consideration has been given to the services provided to our customers and ensuring that any disruption to business services does not result in significant customer harm.

Our Stakeholders

In addition to attending and hosting customer events the Board receives regular performance updates on our suite of customer related KPIs, including customer journey and service times, Net Promoter Scores (measured after customer transactions for key touch points), Competition and Market Authority Service Quality Metrics and complaints metrics for all customer cohorts. The impact of the changes to the external banking landscape, and the need to respond to customer needs arising from that change were also overseen by the Board throughout 2023 to ensure a customer first approach was continually adopted.

Our Employees

Who?

The Board is conscious that our people are the key resource and enabler for the Company to deliver our overall ambition and strategy in a manner underpinned by our values. Ensuring an engaged and motivated workforce is critical to delivery for all our stakeholder groups. We aim to ensure that all employees are satisfied and empowered in their roles.

How we engage

On an ongoing basis, the Board monitors performance against metrics in relation to Employee Engagement, Wellbeing, Inclusion and Diversity, Talent Development and other relevant matters. Elaine MacLean is the AIB Group Non-Executive Director designated to engage directly with employees across the enterprise and the Board has ensured that AIB UK employees are represented at this level. The Board has appointed Mr Graham Buckland, Senior Independent Director and Chair of the Nomination Committee as the Company's Speak Up Champion.

The Board has received updates and provided input on the activity linked to the key people priorities which have focused on the 3C's of Culture, Capacity and Capability. This included supporting the establishment of the Extended Leadership Team, recruitment of Early Careers talent, investing in our Corporate banking model and stabilising our workforce as well as ensuring there is an understanding of our talent, its capabilities and developing this to ensure a strong succession plan.

Following the easing of remuneration restrictions in December 2022, the Board received an update regarding the Remuneration Policy and endorsed the AIB Group Board approved update to the Policy reflecting the intention to provide healthcare benefits to all employees from 2024 and a variable remuneration scheme based on performance in 2023, which would be payable in 2024.

As part of the approval process consideration was given to the implications of the changes and whether the Remuneration Policy: supported employees to perform at their highest level in the best interests of customers; ensured alignment between remuneration and the Risk Appetite Statement; attracts, motivates and engages employees and encourages a transition to a low carbon economy while supporting business and customers.

Our Society

Who?

Our communities, and society as a whole, are to the forefront of all of our stakeholder considerations and are also central to our sustainability strategy.

How we engage

The ESG agenda is a priority for Sustainable Communities which is a strategic pillar and a core consideration in everything we do. The pillar focuses on three key areas, Climate and Environment; Economic and Social Inclusion; and, future-proofing of the business strategy.

It is recognised that climate change must have greater prominence at both senior management and board levels; and Directors have been cognisant of this in considerations and decision making processes and have approved the adoption of the AIB Group ESG Framework and adherence to this.

The Board also considers the wider impact of decisions upon society and during the course of 2023 the Board approved the Modern Slavery statement which sets out AIB Group's Human Rights Commitment and demonstrates how we use the opportunities available to us to mitigate against Human Rights breaches in business and through our supply chain of almost 4,000 suppliers and our Responsible Supplier Code.

Our Stakeholders

Our Shareholder

Who?
Engagement with the Parent Group is crucial to understanding the AIB Group Strategy and the role of AIB UK within that.

How we engage
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 AIB Group's Chief Executive Officer and Chief Risk Officer attended a number of Board and Committee meetings throughout the course of the year and there is regular interaction between the Directors of both the Parent and AIB UK Boards, including annual attendance at Committee meetings, an annual joint engagement event and the Board Chair also attended the Parent's Strategy Day. Other informal interactions also take place throughout the year between the Directors of AIB UK and AIB Group, all of which supports continued engagement between the two Boards.

As in line with governance requirements, the Parent was consulted on the appointments to the Board throughout the year.

Our Regulators

Who?
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.

How we engage
The Board Chair and Chairs of the Board Audit Committee and Board Risk Committees have open and regulator dialogue with our Regulators though both continuous assessment and proactive engagement meetings.

PRA representatives attended the Board meeting in November 2023 to present and discuss their annual Periodic Summary Meeting letter. The Board positively engaged with the PRA and discussed progress that had been made by the Bank in relation to previous feedback and wider macro economic conditions and concerns.

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

Hilary Gormley
Managing Director

4 March 2024

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 key to achieving its strategic objectives, sustainable growth and protecting customers, 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.

The Parent Group Risk Management Framework ('RMF') supports the Bank's business activities and delivery of strategies by setting out how risks are mitigated and managed. It outlines the identification, monitoring and escalation of risk issues and provides clarity on the risk governance structure to ensure accountability for each material risk facing the Bank. The material risks affecting the Bank, as identified through the Material Risk Assessment process, are set out later from page 39.

Risk performance is measured against the Bank's risk appetite, which is approved by the Board at least annually. Risks to future performance are assessed by conducting forward looking stress tests and scenario analysis, the results of which are considered by management and the Board.

In addition, a key part of the RMF is the identification of emerging risk drivers as part of the Material Risk Assessment, which are described on page 44.

The Parent Group's risk management principles, included in the Parent Group's Risk Management Framework, are as set out below.

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 & assessment	
3	The Bank identifies, assesses, and reports all its material risks through the material risk assessment process.
4	Risk Management is embedded in the strategic planning, performance management and strategic decision making processes of the Bank.
5	The Bank develops and uses models across a range of risks and activities to inform key strategic business and financial decisions.
6	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.
Monitoring, escalating & reporting	
7	The Bank operates and manages its risks in line with the Risk Appetite Statement.
8	The Bank understands, manages, measures, monitors, and reports all risks it takes or originates.
9	The Bank aims to provide clarity in all its communications which will help to better inform business decisions.
Risk culture	
10	The Bank supports the delivery of a strong risk culture.
11	Risk Management capabilities are valued, encouraged and developed.
Control environment	
12	The Bank has a system of internal controls designed to mitigate rather than eliminate risk.
13	A comprehensive, fit-for-purpose framework and policy architecture is in place to support risk management and is reviewed regularly.

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 46. An overview of executive governance in AIB UK is summarised below.

Committee	Responsibility
UK Leadership Team	Has primary authority and responsibility for the day-to-day operations of, and the development of strategy for the Bank with core areas of oversight including, Strategy and Business Development; Performance and Operations; Business Structure and Risk Management; and Talent and Culture.
Committees with delegated authority from UK Leadership Team	
UK Risk Committee ('UKRC')	Manages the governance of all risks in the Bank, ensuring they are properly identified, assessed, managed, monitored, escalated, and reported in accordance with the Parent Group Risk Management Framework. It also ensures plans to manage or mitigate risks are approved within agreed risk appetite. UK Credit Committee is a sub-committee of the Parent Credit Committee and has a reporting line into UKRC. It is responsible for exercising approval authority for exposure limits to customers in line with the Board approved policies.
UK Operations Committee	Governs the key operational infrastructural activities including third party supplier performance, operational resilience, business continuity, IT and cybersecurity oversight, data quality and change.
UK Expected Credit Loss ('ECL') Committee	Reviews, challenges and approves UK ECL provision stock and material changes in customer specific provisions.
UK Asset & Liability Management Committee	Reviews and manages funding and capital implications to the balance sheet, monitors asset and liability management against approved risk appetite limits and oversees funding, liquidity, capital and market risks in line with relevant framework and policies.

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.

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

The Board sets the risk appetite for the Bank informed by the Material Risk Assessment. 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 of risk and 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. It is consistent with the Parent Group's risk appetite. 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 MRA process on at least annually, 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 transition 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 Internal Capital Adequacy Assessment Process ('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 2023

2023 was the final 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. This approach also reflects our focus on social and green lending and will support the Parent Group 2024-2026 strategy in building a Group-wide dedicated Climate Capital segment.

Despite macroeconomic headwinds, 2023 has seen strong profitability that benefitted from higher interest rates, which are now expected to have peaked. Looking forward to 2024, continued macroeconomic uncertainty is expected. Our focus will move to balance sheet growth and mitigation of downside risks including faster rate reductions, price agility and the potential for a weakening UK economic outlook. The ongoing geopolitical tensions driving macroeconomic uncertainty and inflationary pressures are expected to remain in 2024, influencing monetary policy, supply chains and affordability. These will continue to be closely monitored to understand their impacts and opportunities.

Mitigation

- Strategic planning is supported by an integrated, risk-focused approach to financial planning. The overarching Business Model & Capital Adequacy Framework and supporting policies set out the principles and rules including those related to stress testing and risk appetite setting.
- 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 Sustainability Regulatory Change Programme evolved in 2023 to become the ESG Transformation programme with workstreams covering different aspects including risk management, data infrastructure and compliance and oversight. AIB UK has representation across all workstreams ensuring that the UK is properly considered in all decisions and that programme deliverables are embedded in the UK.

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 2023

The Bank maintained a strong capital position throughout 2023 with substantial buffers to regulatory requirements and internal risk appetite limits. Various stress testing activities in 2023 demonstrated the robustness of the capital position including the annual ICAAP and the quarterly capital assessments. RAS metrics were reviewed during 2023 to ensure they continued to appropriately reflect both regulatory requirements and the uncertain external environment.

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 adopted the Parent Group's Business Model and Capital Adequacy Risk Framework, that sets out the key processes, governance arrangements and roles and responsibilities, which support the ICAAP.
- 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 2023

Credit quality has remained stable and resilient despite the higher inflation and interest rate environment. Sector appetite is regularly reviewed and, where appropriate, adjusted for those sectors most affected by current economic and geopolitical conditions.

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 the interest rate environment continue to be considered as part of the ECL assessments. Where these factors are not directly reflected within the Banks models additional management overlays have been maintained to reflect any underestimation of expected credit loss.

Mitigation

- The Parent Group Credit Risk Framework and Credit Risk Policy are the overarching documents, which set out the principles of how credit risk is identified, assessed, approved, monitored and reported. These documents are supported by a suite of credit policies, standards and guidelines, which define in greater detail the minimum standards and credit risk metrics applied for those products and sectors.
- 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 stagflation risks are considered regularly by the Executive and the Board Risk Committees.
- In relation to ESG, the Bank undertakes a questionnaire for high risk sectors, with results incorporated into credit applications and also maintains an exclusion list for sectors considered incongruent with the Bank's Sustainability agenda.

Funding & liquidity 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, without incurring unacceptable costs or losses. Funding Risk is the risk that a specific form of liquidity cannot be extended except at unacceptable cost.

Key Developments in 2023

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. We have seen a change in the composition of deposits in light the cost of living pressures and the more competitive, higher interest rate environment, which is expected to continue into 2024. As at 31st December 2023 46.43% of total customer deposits were insured through the UK Financial Services Compensation Scheme (FSCS).

Mitigation

- The objective of liquidity management is to ensure that at all times, AIB UK holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties at an economic price.
- The ILAAP (Funding & Liquidity Risk Management) Framework and supporting Funding and Liquidity Risk Policy set out the requirements for managing the risk. This includes adherence to internal limits and regulatory defined liquidity ratios including the LCR and NSFR, forward-looking liquidity stress testing and maintaining 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 in the period directly after the SVB and Credit Suisse related volatility. A review of internal stress outflow rates resulted in faster/higher outflow rates being applied within our stress scenario linked to the combined impact of faster payments and social media affects.

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 2023

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, markets now assume rates have peaked and will begin to fall over 2024.

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.
- The Bank substantially reduces exposure to IRRBB through hedging, which is conducted on AIB UK's behalf by the Parent's Treasury function.
- On a daily basis front office and risk functions receive a range of valuation and market risk measurement reports, while UK ALCo receives a monthly market risk commentary and summary risk profile.
- 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 2023

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.

Model risk remains a focus with improvements made to data issue management process and development of advanced dynamic calibration solutions. The model estimate distortions associated with extreme volatility in macroeconomic conditions during COVID-19 have moderated. However, challenges remain as conditions are still outside those used to build the models, including a higher inflation and rate environment. The most material IFRS9 models have been improved and all models are closely monitored and adjustments applied where deemed appropriate.

Mitigation

- There is a Model Risk Framework and supporting policies in place to drive the consistent management of this risk. They set out the key controls required across 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 is developing stress testing models to assess the physical and the transitional impact of climate change on the portfolio, including the UK, through the ESG Transformation

Operational risk

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

Key Developments in 2023

Operational Risk remained stable in 2023, with operational losses reducing from 2022.

Information & Cyber Security, IT, Third Party, Data and Change Risk are considered to be the most material operational risk areas. Progress continues to uplift cyber security capabilities in response to the evolving external threats; engagement with the Parent Group to support a four year programme to replace the origination and core account systems; further enhancements to third party management across oversight, control and processes, including services provided by the Parent; the ongoing remediation programme for data quality issues; and data gaps and deployment of an Agile model to manage change programmes. The Bank continues to consider the impact of physical and transition risks associated with climate change across Operational sub-risks, including pertaining to continuity and operational 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.
- Additionally, 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 building our capability to measure 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 2023

The dynamic and evolving regulatory change landscape continues to be a key feature of the management of regulatory compliance risk for the Bank. The Bank has been proactive across key areas of focus including cost of living and increasing interest rate pressures, Consumer Duty implementation and ESG implementation.

The level and sophistication of fraud continues to increase across the banking industry and the Payment Service Regulator continues to consult on the shift in liability to banks for authorised push payments. From an anti-money laundering perspective, the sanction regime continues to evolve in relation to the conflict in Ukraine although the pace of change has reduced.

Mitigation

- The Bank maintains a comprehensive framework and policies setting out the principles, roles and responsibilities and governance arrangements for Regulatory & Compliance Risk. These are supported by systems and controls designed to identify and prevent financial crime.
- Mandatory training is provided to all staff via annual eLearning modules to improve awareness and understanding of regulatory obligations, risk frameworks and policies.
- AIB UK conducts ongoing horizon scanning to identify changes in regulatory and legal requirements.
- Risk provides independent oversight, support and challenge to the business to ensure regulatory and legal change is understood and managed effectively through effective controls and governance.
- Risk conducts thematic reviews to provide independent oversight of regulatory compliance.
- 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.
- 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 & culture risk

Conduct risk is the risk that systemic actions or inactions by the Bank cause poor or unfair customer outcomes, or market instability. Culture risk is the risk that the core values of the Bank are not shared by all staff and as a consequence are not consistently demonstrated through staff behaviour.

Key Developments in 2023

In 2023, the risk of poor outcomes or harm to customers or markets arising from the delivery of the Bank's products and services continues to be an area of ongoing focus. In addition, the Bank remained cognisant of the pressures on customers caused by the current cost of living pressures and a number of initiatives are in place to support customers facing financial difficulties. The Bank became a signatory to the Mortgage Charter, which implements a range of measures to allow customers experiencing difficulties to reduce their monthly payments.

A key priority was delivering Phase 1 of the FCA's Consumer Duty in July. The Duty is focused on ensuring that firms deliver good customer outcomes through: ensuring products and services provide fair value; enabling informed decision-making; and providing support that meets the needs of customers. These key principles align with our Purpose and Values.

As part of the year end 2023 Material Risk Assessment, Culture risk has been combined with Conduct risk in recognition of the interplay between the two risks.

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 that are in place to drive the consistent management of this risk..
- 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.

Climate & environmental risk	
Climate risk is the potential negative impacts of climate change either through the Bank's direct activities and exposures or indirectly via its customers and suppliers. This includes physical, transitional and liability risks associated with climate change. *Environmental risk is the potential negative impact of the activities or action of the Bank, its customers or suppliers, directly or indirectly to the naturally occurring living and non-living components of the Earth.*	
Key Developments in 2023	**Mitigation**
As part of the 2023 UK Material Risk Assessment, Climate & Environmental risk was identified as a material risk to AIB UK. This was based on recognition of it's pervasiveness across the other material risks; societal expectations, regulatory developments and associated reputational risk. Work will continue to embed and develop the Bank's risk management approach on the assessment of climate risks impacting other risks, supported by the appropriate tools and methodologies.	• Due to the cross-cutting nature of Climate & Environmental risk and its impact on other material risks, Climate & Environmental Risk / ESG frameworks and policies are supported by risk management activities documented within frameworks and policies related to those principle risk. • In addition to current monitoring within a defined risk appetite, focus in 2024 will include enhancing data capture and analysis to further our insight and reporting. This will be supplemented with top-down and bottom-up assessments, further embedding of frameworks and policies and enhancements to qualitative and quantitative assessments via heat maps and stress testing.

Current and 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 2023 are set out below.

Current & 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 conflicts in Ukraine and Middle East and outcome of forthcoming elections. In addition, it covers ongoing or further increases in inflation, including high energy and food prices and a rising interest environment putting pressures on businesses and households finances and excessive volatility in the markets.	Across all Material Risks
CLIMATE & ENVIRONMENTAL RISK	The risk of any negative financial or non-financial (e.g. reputational) impact on the Bank stemming from climate and environmental change and the transition to a sustainable economy.	Across all Material Risks
ARTIFICIAL INTELLIGENCE IMPLEMENTATION RISK	The inability or unwillingness to harness the benefits of AI (reduce costs, reduce operational risks, increase productivity). Alternatively the risks associated with implementing AI solutions (incorrect or poor implementation, legal risk, culture impact, AI hallucinations etc.).	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.	Conduct & culture risk Credit risk Funding & liquidity risk Strategic business model risk

CYBER THREATS	The risk of diminished operational capability of the Bank's systems and customer, data risk exposures. In addition the and potential for legal liability or loss of reputation with from customers due to an evolving cyber threat landscape and heighten threats associated with cyber criminals and rogue nation states.	Conduct & culture risk Operational risk Strategic business model 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.	Conduct & culture risk Operational 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 audit function.

The Company has adopted the Parent Group Subsidiary Governance Framework which covers the leadership, direction and relationship with 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).

Deputy Chair/Senior Independent Director

Available to both the shareholder and our colleagues if they have concerns which contact through the normal channels has 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. Hilary Gormley and Janet McConkey continue to serve 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.

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 2023 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 external evaluation was conducted by Praesta Ireland Ltd. during the year. As part of the annual Fitness and Probity assessment the Board Chair meets with individual Directors to review their performance and the Senior Independent Director leads an evaluation of the Board Chair's performance.

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 relevant matters.

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 the AIB UK Technology Data & Resilience Committee ('TDRC') which was established in March 2023, replacing the previous Technology and Operational Resilience Advisory Committee). The purpose of the TDRC is to assist and advise the Board in fulfilling its oversight responsibilities in relation to reviewing and challenging the strategy, governance and execution of matters relating to technology, data and operational resilience.

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, Nomination Committee and Technology Data & Resilience 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	TDRC
Number of meetings held	*10*	*7*	*7*	*4*	*5*
Board Chair					
William Fall*	10/10	-	-	4/4	-
Non-Executive Directors					
Graham Buckland*	8/10	-	7/7	4/4	-
Geraldine Casey	7/10	-	-	-	-
Sally Clark* *(appointed 16 June 2023)*	6/6	-	-	-	-
Tracy Dunley-Owen* *(resigned 31 March 2023)*	3/3	3/3	3/3	-	1/1
Joe Higgins*	10/10	6/7	-	-	4/4
Paul Horner*	10/10	7/7	7/7	-	5/5
Shelley Malton* *(resigned 10 May 2023)*	3/3	-	-	1/2	-
Helen Normoyle	9/10	-	-	-	-
Roger Perkin* *(resigned 31 March 2023)*	3/3	3/3	3/3	-	-
Anne Weatherston* *(appointed 1 January 2023)*	9/10	-	-	2/2	4/4
Andrew Woosey* *(appointed 1 January 2023)*	9/10	4/4	4/4	-	-
Executive Directors					
Hilary Gormley	10/10	-	-	-	-
Janet McConkey (Gahan)	10/10	-	-	-	-

**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.
While not a member of the Audit, Risk or TDRC Committees, the Board Chair attends several committee meetings throughout the year.

A total of 10 Board meetings were held during 2023 (2022:11). The Non-Executive Directors also met on several occasions in the absence of the Executive Directors. Additionally, a Board Chair's Committee exists to act on behalf of the Board between scheduled meetings to take decisions on matters in accordance with the authority delegated to it by the Board, or as specifically set out in its Terms of Reference. The Board Chair's Committee met once during 2023.

Board Audit Committee

7 meetings during 2023 (2022:7)

Andrew Woosey *(Chair - appointed 11 May 2023)*
Joe Higgins
Paul Horner

Roger Perkin *(Chair until 31 March 2023)*
Tracy Dunley-Owen *(Member until 31 March 2023)*

Responsibilities

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

- the quality and integrity of the Company's accounting policies, financial and narrative reporting, Non-Financial Disclosures and disclosure practices;
- the effectiveness of the Company's internal controls and accounting and financial reporting systems;
- the adequacy of arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters; and
- the independence and performance of the Internal auditors.

The committee works to ensure that this purpose is fully aligned to the Company's strategy and values and considers the interests of stakeholders while operating within all applicable regulatory and statutory requirements.

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 2023

Several changes were made to the Membership of the Committee during 2023. Mr Perkin stepped down as the Committee Chair. Mr Woosey joined the AIB UK Board in January 2023 as a Non-Executive Director and his appointment as Committee Chair was confirmed following receipt of regulatory approval in May 2023. Mr Higgins, a Non-Executive Director of AIB UK, was appointed as a Committee Member in January 2023. Ms Dunley-Owen stepped down as a Committee Member in March 2023.

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 by the committee during the year:

- the Bank's annual and interim 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 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 environment on expected credit losses;
- 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 macroeconomic environment and areas of focus for operational stability was approved. Development of the aligned assurance framework was also reviewed;
- regular updates and reports from the CFO on financial performance and management;
- 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 transition to the new external auditor[1], including the new auditors' induction and onboarding, terms of engagement, their independence and objectivity and considered the external audit plan (audit scope and materiality, risk assessment and audit strategy and approach);
- the scope of the external audit, the findings, conclusions and recommendations of the external auditor;
- the effectiveness and performance of the external auditor, the external audit process, concluded that it was satisfied with the external auditor's performance and approved non-audit services; and
- upcoming Sustainability and Environmental, Social & Governance Disclosures.

[1] PwC replaced Deloitte as external auditors, effective 1 January 2023

Board Risk Committee

7 meetings during 2023 (2022:7)

Paul Horner *(Chair)*
Graham Buckland
Andrew Woosey

Roger Perkin *(Member until 31 March 2023)*
Tracy Dunley-Owen *(Member until 31 March 2023)*

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 2023

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.

- the appointment of Mr John Kelly as CRO, following the retirement of Mr Uwe Seedorf;
- the appointment of Mr Simon Priest as interim Money Laundering Reporting Officer and Head of Financial Crime Prevention (5 June 2023),
- 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, and related mitigants;
- 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 and Leverage Finance Reviews;
- 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;
- Modern Slavery Act statement;
- 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;
- Money Laundering Officer’s Report and Financial Crime Risk Assessment alongside related periodic and incident reporting (including Russian sanctions) and policies.

- Environmental Social and Governance ('ESG') Framework and the overall approach to management of key components of the ESG agenda as to enable the achievement of our strategic objectives in line with our risk management framework; and
- reporting on the approach to achieving and maintaining substantive compliance with the FCA Consumer Duty regulatory requirements.

Nomination Committee

3 meetings during 2023 (2022:7)

Graham Buckland *(Chair)*
William Fall
Anne Weatherston *(Member from 1 June 2023)*

Shelley Malton *(Member until 10 May 2023)*

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 2023

During 2023 there was a change to the Membership of the Committee, namely Ms Shelley Malton stood down as a Committee member and resigned from the Board on 10 May 2023, Ms Anne Weatherston was subsequently appointed to the Committee on 14 June 2023.

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

- the appointment and induction process of Ms Anne Weatherston, Mr Andrew Woosey and Ms Sally Clarke as Non-Executive Directors to replace Ms Tracey Dunley-Owen, Mr Roger Perkin and Ms Shelley Malton following their resignations during the course of the year;
- the appointment of Mr John Kelly as Chief Risk Officer, following the resignation of Mr Uwe Seedorf;
- the reappointment of Mr Graham Buckland ahead of the expiry of his current term of office in 2024;
- 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, size, composition and succession plans for the Board and Board committees;
- oversaw a search and appointment process for an external firm to conduct an independent evaluation of the Board's effectiveness; and,
- the Board Diversity Policy. At 31 December 2023, female representation on the Board was 54.55%, exceeding the target of 40%. Additionally, both positions of Managing Director and Chief Financial Officer are held by women. The Committee extended the target date for having at least one Board member from an ethnic minority background as this was not achieved by 2024, despite efforts being made in recent recruitment exercises. The Committee and the Board remains committed to maintaining gender diversity among the Board and promoting ethnic diversity in the medium term.

Board Technology, Data & Resilience Committee

5 meetings during 2023

Anne Weatherston *(Chair)*
Joe Higgins
Paul Horner

Responsibilities

This is the first report of the Committee, which was created following a review of the operation and oversight of the former Technology & Operational Resilience Advisory Committee. The Committee is responsible for assisting and advising the Board in fulfilling its oversight responsibilities in relation to reviewing and challenging the strategy, governance and execution of matters relating to Technology, Data, and Operational Resilience. This is in recognition of the substantial investment into technology and data as agreed under the Annual Investment Plan, coupled with major decision points as part of AIB Group's Strategy, many of which have long term ramifications for AIB UK.

The aim of the committee is to review, challenge and provide advice to the Board on the following in relation to Technology, (including Cyber), Data and Operational Resilience:

- strategy;
- model effectiveness;
- governance and Regulatory Compliance;
- serious Incident/Events Reviews
- significant IT third-party selection.
- technology related deliverables for key change projects; and
- operational resilience related deliverables.

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 2023

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 by the committee during the year:

- operational Resilience compliance and delivery of regulatory requirements including Vital Business Services, ahead of the annual Operational Resilience Self-Assessment that will next be presented to the Board for approval in March 2024;
- IT Strategy including investment priorities to support the UK business strategy;
- agile Operating Model delivery and progress;
- oversight of the Change Portfolio covering Regulatory, Business Strategy and Sustainment, Technology & Data and transformation projects including the Customer Credit Transformation Programme.
- data Warehouse architecture and data planning to meet information demands;
- cybersecurity and the approach to assess the Cyber Programme Maturity Assessments and the adoption of Cyber Risk quantification to enable objective cyber risk assessments;
- financial Crime Operating Model Programme;
- overview of current and regulatory horizon changes in relation to Operations, Technology, Data and Resilience;
- technology and Operations Performance, UK service delivery, cybersecurity status and third-party management;
- outcomes from internal audit activity related to Technology, Data and Operational Resilience;
- actions taken in response to IT strategy and governance recommendations from the PRA.

Board of Directors

			
William Fall	Graham Buckland	Sally Clark	Geraldine Casey
Independent Non-Executive Chair	Senior Independent Director & Deputy Chair	Independent Non-Executive Director	Non-Executive Director
Appointed to the Board			
October 2021 (Chair - March 2022)	March 2017	June 2023	May 2021
Key areas of expertise			
Investment and Retail banking, Corporate Finance, Sales and Trading	Corporate banking	Risk Management & Internal Controls Internal Audit	Retail banking Human Resources Operations
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.	Sally has 37 years experience of internal audit from her executive career and held positions including Deputy President of the Institute of Internal Auditors and was Chair of the Committee rewriting the Internal Audit Code of practice for the IA industry. Sally is Chair of the Audit Committee at Citigroup Global Markets Limited and a member of the the Audit committee at BUPA. Sally is also a member of the Risk Committees in both Citigroup Global Markets Limited and BUPA. Sally is a qualified Executive Coach and a Fellow of the Institute of Leadership and Management. This reflects her deep interest in the importance of culture and how boards can help to oversee, encourage and support this.	Geraldine joined the Parent Group AIB as Chief People Officer in January 2020 and was appointed MD Retail Banking in October 2023. She has significant experience in leading large teams through culture, process and organisational change, and has driven the bank's inclusion, future of work and culture agendas. Prior to joining AIB, she held a number of senior roles at Tesco Ireland, as a member of the Executive working across operations, IT, communications and people management positions. Geraldine holds a Bachelor's Degree in Commerce from University College Cork and is a Certified Bank Director, Institute of Bankers.
Key external appointments			
Ambac Assurance UK Limited Citigroup Global Markets Limited Harwoods Limited	Granard EOT Limited	Citigroup Global Markets Limited BUPA ACIN KoreLabs	None

Joe Higgins

Independent Non-Executive Director

Appointed to the Board

October 2021

Key areas of expertise

Northern Ireland Retail banking

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 Limited and is a Trustee of the Down and Connor Diocesan Trust

Key external appointments

Choice Housing Ireland Limited
Down and Connor Diocesan Trust

Paul Horner

Independent Non-Executive Director and Chair of the Risk Committee

Appointed to the Board

February 2020

Key areas of expertise

Risk, General Management in Retail, Commercial, Investment and Private Banking

Skills and experience

Since starting his banking career at Barclays in 1988, Paul has held a number of senior positions in major international Financial Services companies, covering a wide range of corporate, private banking, retail and restructuring activities. His roles included Chief Risk Officer for the International Restructuring Division of RBS, Chief Risk Officer and subsequently Chief Executive at Coutts International and Chief Risk Officer at Ulster Bank.

Paul was a Non Executive Director of Coutts International from 2018-2022. He is currently Vice Chairman of Arion Bank, a listed Icelandic Financial Services Group, as well as Chair of the Risk Committee for NBKI, the UK subsidiary of National Bank of Kuwait, and Chair of the Risk Committee at LHV Bank Limited, the UK subsidiary of a listed Estonian Financial Services Company.

Key external appointments

Arion Bank
LHV Bank Limited
National Bank of Kuwait International

Helen Normoyle

Non-Executive Director

Appointed to the Board

July 2021

Key areas of expertise

Sustainability, customer and conduct, digital, stakeholder management, and culture development.

Skills and experience

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 Limited, and Non-Executive Director of Thame and London Ltd.

Key external appointments

My Menopause Centre Limited
Thame and London Limited

Anne Weatherston

Independent Non-Executive Director and Chair of the Technology, Data and Resilience Committee

Appointed to the Board

January 2023

Key areas of expertise

Technology

Skills and experience

Anne's executive career spanned various organisations but with a primary focus on the global financial services sector. Her specific executive expertise was the leadership and transformation of the technology of large global organisations banks with a particular focus on the design and implementation of large complex technology enabled change programmes.

Her experience included roles as the Group CIO of Bank of Ireland and the Australia & New Zealand Banking Group.

Since retiring from full-time executive positions, Anne has embarked on a non-executive career with a focus on companies within the financial services sector, including Fintech, which could benefit from her executive experience.

In addition to her role with AIB UK, she is currently an independent member of the Board and Chair of the Audit Committee of Piraeus Bank in Greece and an independent non-executive director of the start up bank Alba.

Key external appointments

Piraeus Bank
Alba Bank



	Andrew Woosey	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	January 2023	June 2022	January 2022
Key areas of expertise	Finance, Audit, Risk and Regulation	Retail, Commercial and Corporate banking	Finance, Strategy, Markets
Skills and experience	Andrew is an experienced Board Member and Trustee with significant experience in financial services. He is currently a Non-Executive Director and the Risk Committee Chair of United Trust Bank Limited, a Trustee and Committee Chair on the board of the Centre for Economic Policy Research and Chair on the board of Tom's Trust. Andrew is a Senior Advisor and Committee Chair for a number of Bain Capital LLP's portfolio companies. Andrew was previously a Banking Partner at Ernst and Young and an Executive Director at ABN Amro earlier in his career.	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	United Trust Bank Centre for Economic Policy Research Tom's Trust Senior Advisor to Bain Capital LLP's portfolio companies	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 2023. A Statement of Directors' responsibilities is shown on page 60.

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:

An indication of likely future developments is given in the Strategic report on pages 5-9 and 20-22, capital management on pages 17-18, events after the reporting date in note 47. The financial risk management objectives and policies of AIB Group (UK) p.l.c. and the policy for hedging, along with details of the bank's exposure to credit risk, price/interest rate risk and liquidity risk are set out in notes 1.10-1.17, 2, 15, 41, 44 and the Risk Management Report (page 37-45).

Results

Our profit after tax for the year ended 31 December 2023 was £269m (2022: £115m) and was calculated as shown in the consolidated income statement on page 68.

Dividends

We did not pay a dividend during the year ended 31 December 2023 (2022: £nil).

Share buyback

As part of our capital restructuring, on 24 November 2023 AIB UK completed a buyback of shares from its parent company, (AIB plc) which resulted in the repurchase of 555,555,555 £0.25 ordinary shares at a price of £0.45 per share (nominal amount of £139m) for an aggregate consideration amount of £250m. The number of ordinary shares in issue at 31 December 2023 was 1,828,444,445 (31 December 2022: 2,384,000,000).

Political donations

The Company did not make any political donations, give any money for political purposes, nor incur any political expenditure during the year (2022: £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 32.

Foreign branches

The Company does not operate branches outside the UK.

Directors

The composition of the Board, and the names of Directors as at 31 December 2023, is set out on page 53. The following Board changes occurred, with effect from the dates shown:

- Anne Weatherston was appointed as a Non-Executive Director on 1 January 2023;
- Andrew Woosey was appointed as a Non-Executive Director on 1 January 2023;
- Tracey Dunley-Owen resigned as a Non-Executive Director on 31 March 2023;
- Roger Perkin resigned as a Non-Executive Director on 31 March 2023;
- Shelley Malton resigned as a Non-Executive Director on 10 May 2023; and,

- Sally Clark was appointed a Non-Executive Director on 16 June 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 46.

We consider the 2023 annual financial report to be fair, balanced and understandable and to give the necessary information to allow our shareholder 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 2023 is appropriate and decided that it is. The reasons for this decision are set out in the 'Going Concern' section of note 1.3.

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. Additionally, the Bank signed up to the UK Mortgage Charter commitments during the course of 2023 to support those customers requiring extra support in meeting their repayments. Customers have been and continue to be encouraged to engage with the Bank so we can help identify the right support required for them and their circumstances.

Legislative changes

During 2023, the Retained EU Law (Revocation and Reform) Act 2023, was introduced in the UK which brings about changes to the status of EU law and its operation in the UK, which had previously been largely preserved intact post-Brexit. The Bank will continue to monitor developments arising as a result of the Retained EU Law (Revocation and Reform) Act 2023 and will react on the implementation of any required changes. The Financial Services and Markets Act 2023 was also a significant legislative development in 2023 and brings about a number of key changes and mechanisms for future changes to financial services law in the UK, the Bank continues to monitor relevant developments and react accordingly, a number of key developments in financial services are currently at consultation stage.

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 and the Bank implemented a 'Consumer Duty Programme' to ensure compliance with the Consumer Duty principles 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.

In July 2023, the Bank complied with the duty for its on sale products and services. The Bank's Consumer Duty Programme continued in H2 2023, with the Board reviewing its implementation plan(s) via the Board Risk Committee (and the Board's Consumer Duty Champion) monitoring progress and closure of actions which are improving customer experiences and outcomes.

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 22. 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 32.

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 during the course of the year and at the date of approval of this report.

Company information

AIB Group (UK) p.l.c. is a public limited company incorporated in Northern Ireland, domiciled in the United Kingdom and its registered office is 92 Ann Street Belfast, BT1 3HH.

AIB Group (UK) p.l.c. is a wholly owned subsidiary of Allied Irish Banks, p.l.c. which is the sole direct subsidiary of AIB Group plc which is the ultimate parent entity established as the Holding Company during 2017 to facilitate the single point of entry bail-in resolution strategy.

Suppliers

The Company, seeks to do business responsibly and sustainably, and to live by our economic, social, ethical, and environmental values and to this end has a Responsible Supplier Code.

We expect our suppliers to conduct business in a fair, lawful and honest manner with all their stakeholders, employees, subcontractors and any other third parties, particularly in relation to the following areas: Human Rights, Health, Safety and Welfare, Supply Chain, Diversity and Inclusion, Doing Business Responsibly, Doing Business Sustainably.

All suppliers are provided with its standard terms of purchase which details its payment terms and the Company complies with the Payment Practices Reporting requirements. These reports can be located on www.gov.uk/check-when-businesses-pay-invoices.

Independent auditor and audit information

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 LLP ('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

4 March 2024

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Financial Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group and the parent company financial statements in accordance with UK adopted international accounting standards. In preparing the group and parent company financial statements, the Directors have also elected to comply with International Financial Reporting Standards issued by the International Accounting Standards Board (IFRSs as issued by IASB).

Under company law, Directors must not approve the financial statements 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 for that period. In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- State whether applicable UK adopted international accounting standards and IFRSs issued by IASB have been followed, subject to any material departures disclosed and explained in the financial statements;
- Make judgements and accounting estimates that are reasonable and prudent; 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 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 also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and 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.

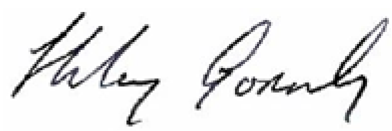
The Directors are responsible for the maintenance and integrity of the parent company's financial statements published on the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

Each of the Directors whose names and functions are listed on pages 53 to 55 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 4 March 2024 and is signed on its behalf by:



Hilary Gormley
Managing Director

4 March 2024

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

Report on the audit of the financial statements

Opinion

In our opinion, AIB Group (UK) p.l.c.'s group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2023 and of the group's profit and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Financial Report (the "Annual Report"), which comprise: the Statement of financial position as at 31 December 2023; the Consolidated income statement, Statement of comprehensive income, Statement of changes in equity and Statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Board Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 11, Auditors remuneration, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Context

This is our first year carrying out the audit of the group and company. Prior to the commencement of the current financial year and our formal appointment in June 2023, PricewaterhouseCoopers LLP ("PwC") had to become independent of the bank. This involved PwC ceasing non-permissible services and business relationships for the firm, partners and staff. After becoming independent we met with management to understand the business and to gather information which we needed to plan our first audit effectively. We met with the former auditors and reviewed their audit working papers to obtain evidence over the opening balance sheet and comparative information.

Overview

Audit scope

- We performed a full scope audit of the consolidated and company financial statements of AIB Group (UK) p.l.c. As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.
- The scope of the audit and the nature, timing and extent of audit procedures were determined with consideration of our risk assessment, the financial significance of account balances and other qualitative factors.
- Audit procedures were performed over all account balances and disclosures which represent a risk of material misstatement to the financial statements.

Key audit matters

- Expected credit loss (group and parent)
- Recoverability of Deferred Tax Assets (group and parent)

Materiality

- Overall group materiality: £16.6m based on 1% of Common Equity Tier 1 capital.
- Overall company materiality: £16.5m based on 1% of Common Equity Tier 1 capital.
- Performance materiality: £12.4m (group) and £12.4m (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, 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.

This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Expected credit loss (group and parent) As required by IFRS 9, the group and company have recognised expected credit losses of £133m as at 31 December 2023, based on the output of underlying credit models, discounted cash flow assessments for individually impaired loans and post model adjustments. Post model adjustments are recorded 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 or other factors. Refer to note 1 (accounting policies) and note 20 (credit risk disclosures). We considered the areas with the most significant audit risk related to the assessment of the completeness and accuracy of post model adjustments and the judgements taken on the individually assessed exposures within the corporate and commercial real estate portfolios. These areas are inherently judgmental and the assumptions made can have a material impact on the level of the expected credit loss provision.	• We performed walkthroughs to understand the expected credit loss process, and evaluated the design and implementation of key controls. • To provide a basis for our testing of post model adjustments, our credit modelling specialists performed testing of the underlying models including a review of the methodology for conceptual soundness, an assessment of model performance and independent reperformance of key model calculations. Additionally we performed testing of the critical data elements that drive the modelling output by agreeing a sample back to source evidence. • In conjunction with our credit modelling specialists, we evaluated the conceptual soundness of the post model adjustments by critically assessing management's rationale and methodology, including the linkage to the limitation/risk that the post model adjustments are seeking to address. • We inspected the post model adjustment calculation methodologies applied, and tested, on a sample basis, the completeness and accuracy of key data inputs. • We challenged the overall completeness and reasonableness of post model adjustments by assessing whether inherent limitations identified in our testing of models and the IFRS 9 calculations (including the impact of multiple economic scenarios) were sufficiently addressed, and by considering whether common post model adjustments recorded at other UK banks were relevant to the group's circumstances.

Key audit matter	How our audit addressed the key audit matter
	• For a sample of credit impaired loans within the corporate and commercial real estate portfolios we assessed the exposures to determine if they met the definition of credit impaired under IFRS 9. Our selection of credit impaired loans was based on a number of factors, including higher risk sectors identified with reference to external sources as well as materiality. • For this sample we challenged the forecasts of future cash flows prepared by management to support the calculation of the impairment loss allowance. Our testing included assessing the reasonableness of the key assumptions, corroborating estimates to external support where available and reperforming the calculation. Where appropriate, our work involved inspecting valuations of collateral and assessing the reasonableness of cash flow projections and weightings to determine whether appropriate valuation methodologies and assumptions were used. • We considered whether the disclosures made in these areas were in line with the understanding we obtained from our audit testing and with the relevant accounting requirements. Based on the procedures we performed and the evidence obtained we concluded that the estimates and judgements in determining the post model adjustments and the determination of the individually assessed exposures were reasonable.
Recoverability of Deferred Tax Assets (group and parent) The group and company have net deferred tax assets of £205m that primarily arise due to historical operating losses. A key judgement in the recognition of deferred tax assets is whether the Group considers it probable that taxable profits will arise against which those losses can be utilised in the future. This judgement relies on the assessment of the probability and the sufficiency of future taxable profits, which in turn is based on assumptions concerning future economic conditions and business performance over a number of years. Refer to "Income tax, including deferred income tax" within Note 1 "Accounting policies", "Deferred taxation" within Note 2 "Critical accounting judgements and estimates" and Note 26 "Deferred taxation". The group and company's considerations in respect of the recognition of the net deferred tax assets are outlined in the key accounting judgements and estimates section within the financial statements, which also provides an overview of the key assumptions underpinning the financial projections. In particular, the deferred tax asset has been limited to a recognition period of 15 years as management believe the degree of estimation uncertainty beyond that period is high. We regard the recoverability of the DTA as a key audit matter owing to the degree of uncertainty over the assumptions used, in particular the length of recovery periods involved which are driven by management judgement over the quantum and timing of future profitability.	• We understood and evaluated the deferred tax recognition process, including consideration of the approval of forecasts by the Board. • We assessed whether estimated future profits used within the three year plan period were reasonable by reference to recent performance and challenged the key assumptions underpinning the forecasts using our knowledge of the business and the company's strategy/future plans as well as external projections for macroeconomic variables. • We assessed and challenged the reasonableness of the medium and longer term growth projections after the initial three year period. • We utilised tax specialists to assess the availability of the deferred taxation assets, and any restrictions thereon. • We assessed the basis for management's conclusion that the recovery period for trading losses carried forward should be restricted to fifteen years, considering both supporting and contradictory evidence, and the consistency of the approach from prior years. • We assessed the disclosures made in the financial statements, including the sensitivity disclosures that highlight that the most significant assumption is the period over which losses are limited. On the basis of the work performed we concluded the recognition of the deferred tax asset is reasonable.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The group comprises the company and a number of inconsequential subsidiaries. Given this, we were able to achieve a high level of coverage for all in scope financial statement line items by only scoping in company balances.

As a number of the group's accounting processes and controls (including aspects related to expected credit losses, derivatives, information technology and reconciliations) are operated by other AIB group entities in Ireland, we instructed PwC Ireland to perform specified audit procedures in these areas. We worked closely with PwC Ireland throughout the year to ensure that the procedures performed on our behalf were sufficient for our purposes. We reviewed the results of their work and held meetings with them to discuss their findings.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the Group's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. These procedures included consideration of the impact of climate risk on loan provisioning. Our procedures did not identify any material impact as a result of climate risk on the company's financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

	Financial statements - group	**Financial statements - company**
Overall materiality	£16.6m	£16.5m
How we determined it	1% of Common Equity Tier 1 capital	1% of Common Equity Tier 1 capital
Rationale for benchmark applied	We set materiality using a benchmark of common equity tier 1 capital calculated during the planning phase of the audit. The group is a wholly owned subsidiary and we consider that users of the financial statements including regulators would consider capital strength a key benchmark. Common equity tier 1 capital is also a commonly used materiality benchmark by banking entities that are also subsidiary entities.	For the Company we applied the same materiality rationale as for the Group. We applied only a limited haircut to the group materiality given there is minimal aggregation risk.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £12.4m for the group financial statements and £12.4m for the company financial statements.

In determining the performance materiality, we considered a number of factors - the results of review of the previous auditor's working papers, the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Board Audit Committee that we would report to them misstatements identified during our audit above £830,000 (group and company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating the directors' going concern assessment, including consideration of the impact of the current economic environment;
- Assessing the reasonableness of management's financial forecasts and the historical accuracy of the budgeting process;
- Considering the current levels of capital and liquidity, and the group and company's abilities to withstand a severe but plausible downturn. This included considering the results of the most recent ICAAP and ILAAP, as well as meeting with the PRA and FCA;
- Obtaining the letter of support provided by the group's immediate parent entity and assessing the ability of the immediate parent entity to provide this support if required, and
- Reviewing the appropriateness of the disclosures made in the Annual financial report in relation to going concern.

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 the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In 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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 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 company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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.

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.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the rules of the Financial Conduct Authority ("FCA") or Prudential Regulatory Authority ("PRA"), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as UK tax legislation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting manual journal entries to manipulate reported financial performance and management bias in accounting estimates. We shared our risk assessment with PwC Ireland who performed specified procedures on our behalf. Audit procedures performed included:

- Performing enquires of the Board Audit Committee, senior management and internal audit, including consideration of known or suspected instance of non-compliance with laws and regulations or fraud;
- Review of key correspondence with regulatory authorities in relation to compliance and regulatory matters, and enquiries of the PRA and FCA;
- Incorporating unpredictability into the nature, timing and/or extent of our testing;
- Considering whether the assumptions and judgements made by management in their estimation of the provisioning on loans and advances to customers were indicative of bias, and
- Identifying and testing selected journal entries posted to unusual account combinations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Board Audit Committee, we were appointed by the directors on 15 June 2023 to audit the financial statements for the year ended 31 December 2023 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

Luke Hanson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5 March 2024

Consolidated income statement

for the year ended 31 December 2023

	Notes	2023 £m	2022 £m
Interest income	3	**459**	280
Interest expense	4	**(81)**	(27)
Net interest income		**378**	253
Fee and commission income	5	**42**	48
Fee and commission expense	5	**(4)**	(4)
Net trading and other financial income	6	**2**	8
Net gain on other financial assets measured at FVTPL	7	**23**	10
Net gain/(loss) on derecognition of financial assets measured at amortised cost	8	**1**	(16)
Other operating income	9	**1**	2
Other income		**65**	48
Total operating income		**443**	301
Operating expenses	10	**(117)**	(109)
Impairment and amortisation of intangible assets	23	**(6)**	(8)
Impairment and depreciation of property, plant and equipment	24	**(4)**	(5)
Total operating expenses		**(127)**	(122)
Operating profit before impairment losses		**316**	179
Net credit impairment writeback/(charge)	12	**21**	(41)
Profit before taxation		**337**	138
Income tax charge	13	**(68)**	(23)
Profit for the year after taxation attributable to equity holders of AIB UK		**269**	115

As permitted by section 408(3) of the Companies Act 2006, AIB UK is availing of the exemption to omit the income statement and related notes from its financial statements.

All results are derived from continuing operations.

The notes on pages 74 to 165 form an integral part of these financial statements.

Statement of comprehensive income

for the year ended 31 December 2023

	Note	AIB UK Group		AIB UK	
		2023	2022	**2023**	2022
		£m	£m	**£m**	£m
Profit for the year		**269**	115	**275**	115
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit asset/(liability), net of tax	37	**(2)**	(68)	**(2)**	(68)
Total items that will not be reclassified subsequently to profit or loss		**(2)**	(68)	**(2)**	(68)
Items that will be reclassified subsequently to profit or loss when specific conditions are met:					
Net change in cash flow hedges, net of tax	37	**73**	(185)	**73**	(185)
Total items that will be reclassified subsequently to profit or loss when specific conditions are met		**73**	(185)	**73**	(185)
Other comprehensive income/(loss) for the year, net of tax		**71**	(253)	**71**	(253)
Total comprehensive income/(loss) for the year		**340**	(138)	**346**	(138)
Attributable to:					
- Equity holders of AIB UK		**340**	(138)	**346**	(138)

The notes on pages 74 to 165 form an integral part of these financial statements.

Statement of financial position

as at 31 December 2023

		AIB UK Group		AIB UK	
		2023	2022	2023	2022
	Notes	£m	£m	£m	£m
Assets					
Cash and balances at central banks		3,229	3,924	3,229	3,924
Derivative financial instruments	15	186	220	186	220
Loans and advances to banks	16	502	555	502	555
Loans and advances to customers	17	5,647	5,718	5,647	5,718
Investment securities	21	73	50	73	50
Investments in group undertakings	22	—	—	1	1
Intangible assets	23	13	15	13	15
Property, plant and equipment	24	33	27	33	27
Other assets	25	13	55	13	55
Current taxation		8	6	8	6
Deferred tax assets	26	207	241	207	241
Prepayments and accrued income		4	7	4	7
Retirement benefit assets	27	54	57	54	57
Total assets		9,969	10,875	9,970	10,876
Liabilities					
Deposits by central banks and banks	28	354	390	354	390
Customer accounts	29	7,118	8,204	7,121	8,213
Derivative financial instruments	15	376	506	376	506
Lease liabilities	30	14	8	14	8
Current taxation		10	—	10	—
Deferred tax liabilities	26	2	2	2	2
Other liabilities	31	78	80	78	80
Accruals and deferred income		12	11	11	11
Provisions for liabilities and commitments	32	11	20	11	20
Subordinated liabilities and other capital instruments	33	141	—	141	—
Total liabilities		8,116	9,221	8,118	9,230
Equity					
Share capital	34	457	2,384	457	2,384
Reserves		1,286	(730)	1,285	(738)
Total shareholders' equity		1,743	1,654	1,742	1,646
Other equity interests	35	110	—	110	—
Total equity		1,853	1,654	1,852	1,646
Total liabilities and equity		9,969	10,875	9,970	10,876

AIB UK reported a profit for the financial year ended 31 December 2023 of £275m (2022: £115m).

The notes on pages 74 to 165 form an integral part of these financial statements.

The financial statements on pages 68 to 165 were approved by the Board of Directors and authorised for issue on 4 March 2024. 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 2023

		Attributable to equity holders of AIB UK						
		Share capital	Other equity interests	Capital redemption reserves	Other reserves	Cash flow hedging reserve	Revenue reserves	Total equity
AIB UK Group	**Notes**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 January 2023		**2,384**	**—**	**—**	**1**	**(209)**	**(522)**	**1,654**
Total comprehensive income for the year								
Profit for the year		**—**	**—**	**—**	**—**	**—**	**269**	**269**
Other comprehensive income	37	**—**	**—**	**—**	**—**	**73**	**(2)**	**71**
Total comprehensive income for the year		**—**	**—**	**—**	**—**	**73**	**267**	**340**
Transactions with owners, recorded directly in equity								
Capital reduction		**(1,788)**	**—**	**—**	**—**	**—**	**1,788**	**—**
Buyback of ordinary shares		**(139)**	**—**	**139**	**—**	**—**	**(250)**	**(250)**
Issue of Additional Tier 1 Securities	35	**—**	**110**	**—**	**—**	**—**	**—**	**110**
Other movements		**—**	**—**	**—**	**—**	**—**	**(1)**	**(1)**
Total contributions by and distributions to owners of AIB UK		**(1,927)**	**110**	**139**	**—**	**—**	**1,537**	**(141)**
At 31 December 2023		**457**	**110**	**139**	**1**	**(136)**	**1,282**	**1,853**
At 1 January 2022		2,384	—	—	2	(24)	(570)	1,792
Total comprehensive loss for the year								
Profit for the year		—	—	—	—	—	115	115
Other comprehensive loss	37	—	—	—	—	(185)	(68)	(253)
Total comprehensive loss for the year		—	—	—	—	(185)	47	(138)
Other movements		—	—	—	(1)	—	1	—
At 31 December 2022		2,384	—	—	1	(209)	(522)	1,654

		Attributable to equity holders of AIB UK						
		Share capital	Other equity interests	Capital redemption reserves	Other reserves	Cash flow hedging reserve	Revenue reserves	Total equity
AIB UK	**Notes**	£m	£m	£m	£m	£m	£m	£m
At 1 January 2023		**2,384**	**—**	**—**	**1**	**(209)**	**(530)**	**1,646**
Total comprehensive income for the year								
Profit for the year		—	—	—	—	—	275	275
Other comprehensive income	37	—	—	—	—	73	(2)	71
Total comprehensive income for the year		**—**	**—**	**—**	**—**	**73**	**273**	**346**
Transactions with owners, recorded directly in equity								
Capital reduction		(1,788)	—	—	—	—	1,788	—
Buyback of ordinary shares		(139)	—	139	—	—	(250)	(250)
Issue of Additional Tier 1 Securities	35	—	110	—	—	—	—	110
Total contributions by and distributions to owners of AIB UK		**(1,927)**	**110**	**139**	**—**	**—**	**1,538**	**(140)**
At 31 December 2023		**457**	**110**	**139**	**1**	**(136)**	**1,281**	**1,852**
At 1 January 2022		2,384	—	—	1	(24)	(577)	1,784
Total comprehensive loss for the year								
Profit for the year		—	—	—	—	—	115	115
Other comprehensive loss	37	—	—	—	—	(185)	(68)	(253)
Total comprehensive loss for the year		—	—	—	—	(185)	47	(138)
At 31 December 2022		2,384	—	—	1	(209)	(530)	1,646

The notes on pages 74 to 165 form an integral part of these financial statements.

Statement of cash flows

for the year ended 31 December 2023

		AIB UK Group		AIB UK	
		2023	2022	**2023**	2022
	Notes	**£m**	£m	**£m**	£m
Cash flows from operating activities					
Profit before taxation for the year		**337**	138	**343**	139
Adjustments for:					
Non-cash items	42	**(29)**	67	**(36)**	67
Net cash inflow from operating activities before changes in operating assets and liabilities		**308**	205	**307**	206
Change in loans and advances to banks		**(72)**	142	**(72)**	142
Change in loans and advances to customers		**88**	419	**88**	419
Change in deposits by banks		**(16)**	(18)	**(16)**	(18)
Change in customer accounts	29	**(1,086)**	(1,884)	**(1,091)**	(1,885)
Change in derivative financial instruments	15	**3**	(3)	**3**	(3)
Change in notes in circulation	31	**(6)**	(44)	**(6)**	(44)
Change in other assets		**42**	(37)	**42**	(38)
Change in other liabilities		**(1)**	(64)	**(1)**	(64)
Net cash outflow from operating assets and liabilities		**(1,048)**	(1,489)	**(1,053)**	(1,491)
Net cash outflow from operating activities before taxation		**(740)**	(1,284)	**(746)**	(1,285)
Taxation (paid)/refund		**(54)**	2	**(54)**	2
Net cash outflow from operating activities		**(794)**	(1,282)	**(800)**	(1,283)
Cash flows from investing activities					
Additions to property, plant and equipment		**—**	(4)	**—**	(4)
Proceeds from disposals of property, plant and equipment		**1**	1	**1**	1
Additions to intangible assets		**(4)**	(2)	**(4)**	(2)
Dividends received from subsidiary undertakings	22	**—**	—	**6**	1
Net cash outflow from investing activities		**(3)**	(5)	**3**	(4)
Cash flows from financing activities					
Buyback of ordinary shares		**(250)**	—	**(250)**	—
Proceeds on issues of debt securities	33	**140**	—	**140**	—
Net proceeds on issue of additional Tier 1 securities	35	**110**	—	**110**	—
Repayment of lease liabilities		**(3)**	(9)	**(3)**	(9)
Net cash outflow from financing activities		**(3)**	(9)	**(3)**	(9)
Change in cash and cash equivalents		**(800)**	(1,296)	**(800)**	(1,296)
Opening cash and cash equivalents		**4,057**	5,353	**4,057**	5,353
Closing cash and cash equivalents	42	**3,257**	4,057	**3,257**	4,057

The notes on pages 74 to 165 form an integral part of these financial statements.

Notes to the financial statements

Notes to the financial statements

1. Accounting policies

The material 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 for the year ended 31 December 2023 include the financial statements of 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 4 March 2024.

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 48). 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 as adopted by the UK and applicable for the year ended 31 December 2023. The accounting policies have been consistently applied by 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 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 for certain notes to the financial statements

AIB UK Group has changed the presentation of loans and advances to customers by industry sector in certain tables in note 20: Credit risk disclosures. Details of this change are set out on pages 121 and 123.

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 assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. The judgements that have a significant effect on the financial statements and the estimates with a significant risk of material adjustment in the next year relate to expected credit losses on financial assets; the recoverability of deferred tax; retirement benefit obligations; and the fair value of investment securities.

A description of these judgements and estimates is set out in note 2: Critical accounting judgements and estimates on page 93.

Notes to the financial statements

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. There is currently no reasonable and supportable information that indicates a material impact of climate change on estimated ECLs and AIB UK Group's approach to individual counterparty risk assessment adequately captures climate risk where appropriate.
- **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 on 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.

Going concern

The financial statements for the year ended 31 December 2023 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 their 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 AIB UK strategy 2024-2026, 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 and future UK economic environment prospects, as well as the outlook for the Global 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 geopolitical landscape, which could materially affect AIB UK Group's future business performance and profitability and which are outlined on pages 39 to 44.

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 2026. The Company's regulatory capital resources are outlined on page 17 and liquidity is outlined on page 18.

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.

Adoption of new accounting standards

The following new standards and amendments to standards have been adopted by AIB UK Group for the year ended 31 December 2023:

- IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*: Disclosure of Accounting Policies;
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*: Definition of Accounting Estimates;
- IAS 12 *Income Taxes*: Deferred Tax related to Assets and Liabilities arising from a Single Transaction; and
- IAS 12 *Income Taxes*: International Tax Reform - Pillar Two Model Rules.

Notes to the financial statements

The impact of these are set out below.

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* provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. In considering which accounting policies to disclose as material, AIB UK Group considered both quantitative and qualitative factors including considering the broad range of users of AIB UK Group's financial statements.

The amendments had the following impact on AIB UK Group's disclosure of accounting policies:

- AIB UK Group removed the following policies on the basis that the related balances, transactions, events or conditions was quantitatively immaterial: dividend income, impairment of tangible and intangible assets, and disposal groups and non-current assets held for sale.
- AIB UK Group amended the following policies by condensing or removing information from those policies which were qualitatively immaterial: basis of consolidation, interest income and expense recognition, fee and commission income, employee benefits, financial assets, leases, derivatives and hedge accounting, non-credit risk provisions and equity; and removed the policy on net trading income on the same basis.

The amendments had no impact on the measurement, recognition or presentation of any items in AIB UK Group's financial statements.

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* clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments had no impact on AIB UK Group's financial statements.

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

The amendments to IAS 12 *Income Taxes* ('IAS 12') narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities.

The amendments had no material impact on AIB UK Group's financial statements.

Amendments to IAS 12 *Income Taxes*: International Tax Reform - Pillar Two Model Rules

The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

See accounting policy 1.9 and note 13: Taxation for AIB UK Group's disclosure related to this amendment.

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

Notes to the financial statements

1.4 Basis of consolidation
The consolidated financial statements comprise the financial statements of AIB UK Group and its subsidiaries.

As permitted by Section 408 of the Companies Act 2006, no income statement is presented for the company, AIB UK.

Subsidiary undertakings
Subsidiary undertakings are all entities over which AIB UK has control. AIB UK controls an entity where AIB UK is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiary undertakings are fully consolidated from the date on which control is transferred to AIB UK. They are derecognised from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been updated where necessary to ensure consistency with the policies adopted by AIB UK Group.

AIB UK reassesses whether it controls a subsidiary when facts and circumstances indicate that there are changes to one or more elements of control. If AIB UK Group loses control over a subsidiary undertaking, it derecognises the related assets (including goodwill), liabilities, and other components of equity, while any resultant gain or loss is recognised in profit or loss.

See note 22: Investments in group undertakings for the list of subsidiaries within AIB UK Group.

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 investments 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.

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.

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.

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 expected 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.

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 the 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.

Presentation
Interest income and expense presented in the consolidated income statement includes:
- Interest on financial assets and financial liabilities measured at amortised cost calculated using the effective interest rate method;
- Net interest income and expense on qualifying hedge derivatives designated as cash flow hedges which are recognised in interest income or interest expense;
- Interest income on finance leases and hire purchase contracts; and
- Interest income, excluding dividends, on equity shares.

1.7 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*.

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.

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.

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 *Presentation of Financial Statements*.

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.

1.8 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. Variable remuneration is recognised to the extent that AIB UK Group has a legal or constructive obligation to its employees that can be measured reliably.

1.9 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.

AIB UK Group has adopted the amendments to IAS 12 by the IASB (International Tax Reform – Pillar Two Model Rules), issued in May 2023. The amendments provide a mandatory temporary exception from the requirement to recognise and disclose deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar Two model rules. Accordingly, AIB UK Group has not recognised any changes to its deferred tax assets or liabilities in respect of Pillar Two. (See note 13).

1.10 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 ongoing 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.

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.

Investments in equity instruments

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

1.11 Financial liabilities and equity

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.

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.

1.12 Leases

AIB UK Group applies a single recognition and measurement approach for all leases, except for short-term leases of 12 months or less or leases of low-value assets (i.e. the value of the underlying asset, when new, is less than £5,000). AIB UK Group recognises lease liabilities that represent the present value of lease payments to be made over the lease term and right-of-use assets representing the right to use the underlying assets.

Notes to the financial statements

Right-of-use assets
AIB UK Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Lease liabilities
At the commencement date of the lease, AIB UK Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by AIB UK Group and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

1.13 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.

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, if market participants would include one, where these are not embedded in underlying valuation techniques or prices used.

The choice of contributors, the quality of market data used for pricing and the valuation techniques used are all subject to internal review and approval procedures.

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

1.14 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. 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. 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.

1.15 Derivatives and hedge accounting
Derivatives, such as interest rate swaps, options and forward rate agreements, futures, currency swaps and options, and equity index options are used for trading purposes whereas interest rate swaps, currency swaps, cross currency interest rate swaps and credit derivatives are used for hedging purposes.

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* ('IAS 39') hedge accounting requirements until macro hedge accounting is addressed by the IASB as part of a separate project. This is an accounting policy choice allowed by IFRS 9 *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, AIB UK Group designates certain derivatives as 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 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.

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.

1.16 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 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.

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 expired. Any gain or loss on the extinguishment or remeasurement of a financial liability is recognised in profit or loss.

1.17 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.

Notes to the financial statements

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 does not have any purchased or originated credit impaired financial assets.

Modification
From time to time, AIB UK Group will modify the original terms of a customer’s loan either as part of the ongoing relationship or arising from changes in the customer’s circumstances such as when that customer is unable to make the agreed original contractual repayments.

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

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

When modification does not result in derecognition, the modified assets are treated as the same continuous lending agreement and a modification gain or loss is taken to profit or loss immediately. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows discounted at the financial asset’s original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

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

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

1.18 Collateral and netting

Collateral

AIB UK Group obtains collateral in respect of customer advances where this is considered appropriate. The collateral normally takes the form of a lien over the customer’s assets and gives 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. Therefore, in the case of cash collateral, these amounts are assigned to deposits received from banks or other counterparties. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

In certain circumstances, 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 on the statement of financial position if, and only if, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross on the statement of financial position.

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.

Notes to the financial statements

1.19 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'.

1.20 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.

1.21 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. Computer software and other intangible assets are reviewed for impairment when there is an indication that the asset may be impaired. Intangible assets not yet available for use are reviewed for impairment on an annual basis.

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

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

1.23 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.

Dividends and distributions
Final dividends on ordinary shares are recognised as a liability in the AIB UK Group's financial statements in the period in which they are approved by the shareholders of AIB UK. Proposed dividends that are declared after the end of the reporting date are not recognised as a liability, they are disclosed in note 46.

Other equity interests
Other equity interests consists of Additional Tier 1 perpetual security instrument (AT1) (note 35), which were issued for the first time during 2023 and are held by the Parent.

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.

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.

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.

Notes to the financial statements

1.24 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.

1.25 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:* Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants
In January 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; and
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.

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

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

Amendments to IFRS 16 *Leases*: Lease Liability in a Sale and Leaseback
In September 2022, the IASB issued amendments to IFRS 16 *Leases* to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

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

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

Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates*: Lack of Exchangeability
In August 2023, the IASB issued amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates* to clarify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking, as well as require the disclosure of information that enables users of financial statements to understand the impact of a currency not being exchangeable.

Effective date: Annual reporting periods beginning on or after 1 January 2025.

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

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 accounting judgements that have the most significant effect on the amounts recognised in the financial statements, and the estimates that have a significant risk of material adjustment in the next year are set out below.

Impairment of financial assets

AIB UK Group's accounting policy for impairment of financial assets is set out in note 1.17. The ECL allowances for financial assets at 31 December 2023 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;
- Determining the requirement, and the appropriate methodology, for any post-model adjustments (see note 20(a) for further details); and
- 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 establishing the number and relative weightings for forward looking scenarios and in determining the amount of post-model adjustments (see note 20(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 20(b) and 20(c).

Further information on impairment of financial assets measurement, methodologies and judgements is set out in note 20(a).

Recoverability of deferred tax asset

AIB UK Group's accounting policy for deferred tax is set out in note 1.9 and details of AIB UK Group's deferred tax assets and liabilities are set out in note 26.

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 26 together with a sensitivity analysis of the deferred tax asset to a change in the estimate of future profitability.

Retirement benefit obligations
AIB UK Group's accounting policy for retirement benefit plans is set out in note 1.8 and details of the key assumptions and the valuation of the AIB Group (UK) Pension Scheme (the 'UK Scheme'), at 31 December 2023 are set out in note 27.

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.

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. A sensitivity analysis of the scheme assets (APP and SLP assets) and the scheme liabilities to changes in the assumptions is set out in note 27.

Fair value of investment securities
The fair value of the investment securities (note 21) has been identified as a key source of estimation uncertainty at 31 December 2023 that has a significant risk of resulting in a material adjustment within the next year.

Judgement is involved in determining the appropriate valuation approach to base the fair value on. A discounted cash flow valuation was chosen for 31 December 2023 with a net assets valuation no longer considered a reasonable proxy for fair value.

Estimates are involved in assessing the fair value of the equity investment securities based on expected sale proceeds. The fair value of £73m at 31 December 2023 has been based on a discounted cash flow valuation of the underlying trading entity. The expected sale proceeds at 31 December 2022 of £50m were based on a net asset value of the underlying trading entity. The key assumptions in the discounted cash flow valuation include: the discount rate; the long term growth rate; the expected revenue of the underlying trading entity; the working capital inflows assumption; the discount for AIB UK having a minority holding in the investment.

Applying different assumptions at 31 December 2023 to determine expected sale proceeds could materially impact the fair value estimation. Increasing (or decreasing) the discount rate assumption by 0.8% would decrease (or increase) the fair value of the investment by £6m. Assuming no increase in working capital inflows over the forecast period of the discounted cash flow calculation would decrease the valuation by £8m and reducing the deduction for minority interest by 10% would increase the valuation by £12m to £85m. An increase (or decrease) of 5% in the expected trading entity revenue would increase (or decrease) the fair value by £4m. A further sensitivity on both the discount rate and growth rate is included in the level 3 measurements table within note 40.

Applying a different method to calculate the expected sale proceeds could also materially impact the fair value estimation. Using a trading multiplier estimation would give a valuation of between £60m and £73m and applying a transaction multiple valuation of the underlying trading entity would give an investment security valuation of between £82m and £101m at 31 December 2023.

Notes to the financial statements

3. Interest and similar income

	2023 £m	2022 £m
Interest on loans and advances to banks at amortised cost	174	52
Interest on loans and advances to customers at amortised cost	280	224
Interest income calculated using the effective interest rate method	454	276
Interest income on finance leases and hire purchase contracts	5	4
Total interest and similar income	459	280

Interest income includes amounts transferred from other comprehensive income in respect of cash flow hedges. 2023: debit of £98m which is included in 'Interest on loans and advances to customers at amortised cost', 2022: debit of £17m which is included in 'Interest on loans and advances to banks at amortised cost'.

4. Interest and similar expense

	2023 £m	2022 £m
Interest on deposits by banks	15	3
Interest on customer accounts	65	24
Interest on subordinated liabilities and other capital instruments	1	—
Total interest and similar expense	81	27

Interest expense includes amounts transferred from other comprehensive income in respect of cash flow hedges. 2023: credit of £21m which is included in 'Interest on customer accounts', 2022: credit of £4m which is included in ''Interest on deposits by banks'.

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

5. Net fee and commission income

	2023 £m	2022 £m
Retail banking customer fees	11	14
Credit related fees	12	11
Foreign exchange fees	5	9
Service charge[(1)]	3	3
Credit card commission	2	2
Other fees and commission	9	9
Fee and commission income	42	48
Fee and commission expense	(4)	(4)
	38	44

[(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

	2023	2022
	£m	£m
Interest rate contracts	**2**	8
	2	8

The total hedging ineffectiveness on cash flow hedges reflected in the income statement is £nil in 2023 (2022: £nil).

7. Net gain on other financial assets measured at FVTPL

	2023	2022
	£m	£m
Investment securities - equity	**23**	10
	23	10

8. Net gain/(loss) on derecognition of financial assets measured at amortised cost

	2023		2022	
	Carrying value of derecognised financial assets measured at amortised cost	**Gain from derecognition**	Carrying value of derecognised financial assets measured at amortised cost	Loss from derecognition
	£m	**£m**	£m	£m
Loans and advances to customers	**33**	**1**	265	(16)
	33	**1**	265	(16)

Derecognition relates to the sale of portfolios of non-performing loans, AIB UK performing small and medium enterprise ('SME') loans and the sale of individual loans (for credit management purposes) from a specific loan portfolio where credit deterioration had occurred.

9. Other operating income

	2023	2022
	£m	£m
Profit on disposal of property (note 24)	**—**	2
Miscellaneous operating income	**1**	—
	1	2

Notes to the financial statements

10. Operating expenses

	2023 £m	2022 £m
Wages and salaries	41	39
Social security costs[(1)]	7	5
Termination benefits[(1)]	1	2
Pension costs		
- Defined contribution plans (note 27)	6	6
- Defined benefit plans (note 27)	(1)	(1)
Other personnel expenses	14	13
Personnel expenses	**68**	64
General and administrative expenses[(2)]	**49**	45
Total operating expenses	**117**	109

[(1)]For the year ended 31 December 2023, a charge of £1m (2022: £2m) was made to the income statement in respect of termination benefits arising from the voluntary severance programme in operation in AIB UK Group as part of the restructuring provision (note 32) and a charge of £3m (2022: £nil) was included within social security costs in 2023 for voluntary severance associated payments.

[(2)]Includes a charge of £1m (2022: £1m) in respect of the FSCS levy and £nil (2022: writeback £2m) of litigation and other provisions for liabilities (note 32).

The monthly average number of employees (full time equivalents) of AIB UK Group and AIB UK during the year was 681 (2022: 656).

11. Auditor's remuneration

Auditor’s remuneration is included within operating expenses in the income statement. The charges included in 2023 and 2022 shown below are exclusive of Value Added Tax (VAT). The fees were payable by AIB UK Group to the principal auditor only for services relating to the audit of the AIB UK Group and relevant subsidiary financial statements in the categories set out below. PricewaterhouseCoopers LLP were appointed as the AIB UK Group independent auditor for 2023. Deloitte LLP was the AIB UK Group auditor for 2022.

	2023 £’000	2022 £’000
Audit fees for statutory audit[(1)]	900	981
Other assurance services (including regulatory compliance work)[(2)]	71	18
	971	999

[(1)]The audit of subsidiaries is included within the statutory audit fee. No additional audit fees were charged in 2023 in relation to the 2022 audit (2022: £nil in relation to the 2021 audit).

[(2)]Other assurance services includes remuneration for additional assurance expressed by the external auditor outside of the audit of the statutory financial statements of AIB UK Group. This remuneration includes assignments where the external auditor provides assurance to third parties.

The 2023 amounts in the table above relate to fees payable to PricewaterhouseCoopers LLP from the date of their appointment for services provided to AIB UK Group. The 2022 amounts relate to statutory audit fees payable to Deloitte LLP.

Notes to the financial statements

12. Net credit impairment writeback/(charge)

The following table analyses the income statement net credit impairment writeback/(charge) on financial instruments for the years ended 31 December 2023 and 2022.

	2023	2022
	Measured at amortised cost	Measured at amortised cost
Credit impairment writeback/(charge) on financial instruments	£m	£m
Net re-measurement of ECL allowance:		
Loans and advances to customers	**16**	(45)
Loan commitments (note 32)	**3**	2
Credit impairment writeback/(charge) before recoveries	**19**	(43)
Recoveries of amounts written-off in previous years	**2**	2
Net credit impairment writeback/(charge)	**21**	(41)

13. Taxation

	2023	2022
	£m	£m
Current tax		
Corporation tax in the UK		
UK corporation tax on income for the year	**(62)**	(20)
Current tax charge for the year	**(62)**	(20)
Deferred tax		
Origination and reversal of temporary differences		
- Current year	**(1)**	(5)
Change in the recognition of deferred tax on losses:		
- Current year	**(5)**	2
Deferred tax charge for the year (note 26)	**(6)**	(3)
Total tax charge for the year	**(68)**	(23)

The tax charge for the period is lower (2022: lower) than the 2023 standard average rate of corporation tax in the UK of 23.5% (2022: 19%). The differences are explained below:

	2023	2022
	£m	£m
Corporation tax charge at standard average rate	**(79)**	(26)
Effects of:		
Expenses not deductible for tax purposes	**3**	2
Exempted income, income at reduced rates and tax credits	**6**	2
Income taxed at bank surcharge rate	**(10)**	(7)
Deferred tax amounts previously not recognised	**12**	7
Change in tax rate	**—**	(1)
Tax charge	**(68)**	(23)

The current tax asset of £8m (2022: £6m) is tax recoverable from HMRC. The current tax liability of £10m (2022: £nil) is amounts due to other UK subsidiaries for tax losses surrendered as group relief to AIB UK.

Pillar Two
The member countries of the OECD/G20 Inclusive Framework have agreed the Pillar Two model rules for a global 15% minimum effective tax rate. The Pillar Two legislation has been enacted in the UK, the only country in which AIB UK Group operates. The legislation will be effective for AIB UK Group's financial year beginning 1 January 2024. It is not expected that these changes will have a material impact on AIB UK Group's tax charge.

AIB UK Group is monitoring its exposure to the Pillar Two legislation for the period it comes into effect. An initial assessment indicates that if the Pillar Two legislation had applied for 2023, AIB UK Group's Pillar Two effective tax rate in the UK would have been above 15% for the purposes of the transitional safe harbour. Accordingly, there would have been no exposure to additional taxes under Pillar Two.

14. 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 non-performing loans in December 2022 and a further tranche of the loans, with a net book value of £23m, in 2023. The loans were derecognised at the date of sale and AIB UK continued to service the loans on behalf of the purchaser until transition was completed in 2023.

15. 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 2023 is set out in note 37.

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 concentration of exposures of AIB Group UK, in respect of notional principal amounts of £9,014m (2022: £7,514m) and positive fair value of interest rate and exchange rate contracts of £186m (2022: £220m), 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 2023 and 2022:

	2023			2022		
	Notional principal amount	Fair values Assets	Fair values Liabilities	Notional principal amount	Fair values Assets	Fair values Liabilities
	£m	£m	£m	£m	£m	£m
Derivatives held for trading						
Interest rate derivatives - OTC						
Interest rate swaps	3,431	132	(135)	2,701	155	(157)
Interest rate options bought and sold	1,167	8	(7)	529	11	(8)
Total interest rate derivatives	4,598	140	(142)	3,230	166	(165)
Foreign exchange derivatives - OTC						
Foreign exchange contracts	128	1	(1)	253	6	(6)
Total foreign exchange derivatives	128	1	(1)	253	6	(6)
Total derivatives held for trading	4,726	141	(143)	3,483	172	(171)
Derivatives held for hedging						
Derivatives designated as cash flow hedges - OTC						
Interest rate swaps	4,288	45	(233)	4,031	48	(335)
Total derivatives designated as cash flow hedges	4,288	45	(233)	4,031	48	(335)
Total derivatives held for hedging	4,288	45	(233)	4,031	48	(335)
Total derivative financial instruments	9,014	186	(376)	7,514	220	(506)

Notes to the financial statements

Cash flow hedges of interest rate

The tables below set out the amounts relating to (a) items designated as hedging instruments and (b) the hedged items in cash flow hedges of interest rate risk together with the related hedge ineffectiveness at 31 December 2023 and 2022:

											2023
		Carrying amount					Hedge ineffectiveness		Amounts reclassified from cash flow hedging reserves to the income statement		
	Nominal amount	Assets	Liabilities	Line item in the Statement of financial position where hedging instruments are included	Change in fair value of hedging instruments used for calculating hedge ineffectiveness in the year	Change in fair value of hedging instruments recognised in OCI in the year	Hedge ineffectiveness recognised in the income statement	Line item in the income statement that includes hedge ineffectiveness	Amounts for which hedge accounting had been used but for which the hedged future cash flows are no longer expected to occur	Amounts that have been transferred because the hedged item has affected the income statement	Line item in the income statement affected by the reclassification
(a) Hedging instruments	£m	£m	£m		£m	£m	£m		£m	£m	
Interest rate swaps											
Derivative hedging assets	3,469	19	(227)	Derivative financial instruments	127	127	—	Net trading income	—	(98)	Interest and similar income
Derivative hedging liabilities	819	26	(6)	Derivative financial instruments	(25)	(25)	—	Net trading income	—	21	Interest and similar expense

						2023
	Line item in Statement of financial position in which hedged item is included	Change in fair value of hedged items used for calculating hedge ineffectiveness for the year	Amounts in the cash flow hedging reserves for continuing hedges[1] pre tax	Amount in the cash flow hedging reserves for continuing hedges[1] post tax	Amounts remaining in cash flow hedging reserves from any hedging relationship for which hedge accounting is no longer applied pre tax	Amounts remaining in cash flow hedging reserves from any hedging relationship for which hedge accounting is no longer applied post tax
(b) Hedged items		£m	£m	£m	£m	£m
Interest rate risk	Loans and advances to customers	(127)	(207)	(149)	—	—
Interest rate risk	Customer accounts	25	19	13	—	—

[1]The cash flow hedging reserves are adjusted to the lower of either the cumulative gain or loss or the cumulative change in fair value (present value) of the hedged item from inception of the hedge. The portion that is offset by the change in the cash flow hedging reserves is recognised in other comprehensive income with any hedge ineffectiveness recognised in the income statement.

											2022
		Carrying amount					Hedge ineffectiveness		Amounts reclassified from cash flow hedging reserves to the income statement		
	Nominal amount	Assets	Liabilities	Line item in the Statement of financial position where hedging instruments are included	Change in fair value of hedging instruments used for calculating hedge ineffectiveness in the year	Change in fair value of hedging instruments recognised in OCI in the year	Hedge ineffectiveness recognised in the income statement	Line item in the income statement that includes hedge ineffectiveness	Amounts for which hedge accounting had been used but for which the hedged future cash flows are no longer expected to occur	Amounts that have been transferred because the hedged item has affected the income statement	Line item in the income statement affected by the reclassification
(a) Hedging instruments	£m	£m	£m		£m	£m	£m		£m	£m	
Interest rate swaps											
Derivative hedging assets	3,278	3	(334)	Derivative financial instruments	(292)	(292)	—	Net trading income	—	(17)	Interest and similar income
Derivative hedging liabilities	753	45	(1)	Derivative financial instruments	36	36	—	Net trading income	—	4	Interest and similar expense

						2022
	Line item in Statement of financial position in which hedged item is included	Change in fair value of hedged items used for calculating hedge ineffectiveness for the year	Amounts in the cash flow hedging reserves for continuing hedges[1] pre tax	Amount in the cash flow hedging reserves for continuing hedges[1] post tax	Amounts remaining in cash flow hedging reserves from any hedging relationship for which hedge accounting is no longer applied pre tax	Amounts remaining in cash flow hedging reserves from any hedging relationship for which hedge accounting is no longer applied post tax
(b) Hedged items		£m	£m	£m	£m	£m
Interest rate risk	Loans and advances to customers	292	(334)	(241)	—	—
Interest rate risk	Customer accounts	(36)	44	32	—	—

[1]The cash flow hedging reserves are adjusted to the lower of either the cumulative gain or loss or the cumulative change in fair value (present value) of the hedged item from inception of the hedge. The portion that is offset by the change in the cash flow hedging reserves is recognised in other comprehensive income with any hedge ineffectiveness recognised in the income statement.

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				
					2023
	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	**154**	**80**	**154**	**109**	**497**
Forecast payable cash flows	**36**	**20**	**20**	**2**	**78**

	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

For AIB UK Group, the ineffectiveness reflected in the income statement that arose from cash flow hedges is £nil (2022: £nil).

Pay fixed cash flow hedges are used to hedge the cash flows on variable rate liabilities and receive fixed cash flow hedges are used to hedge the cash flows on variable rate assets.

The total amount recognised in other comprehensive income net of tax in respect of cash flow hedges was a gain of £73m (2022: loss of £185m).

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.

16. Loans and advances to banks

	AIB UK Group & AIB UK	
	2023	2022
	£m	£m
At amortised cost		
Funds placed with central banks	**225**	232
Funds placed with other banks	**277**	323
	502	555
Loss allowance (note 19)	**—**	—
Total loans and advances to banks	**502**	555
Amounts include:		
Due from AIB plc and fellow subsidiaries	**201**	232
External rating:		
AA/AA-	**225**	233
A+/A/A-	**277**	90
BBB+/BBB-/BB+/BB-	**—**	232
	502	555

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 2023 (2022: £nil) in respect of government securities. No collateral (2022: £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 2023 and 2022. It was determined that the ECL on the intercompany loans at 31 December 2023 was £nil (2022: £nil).

17. Loans and advances to customers

	AIB UK Group & AIB UK	
	2023	2022
	£m	£m
At amortised cost		
Loans and advances to customers	**5,691**	5,817
Amounts receivable under finance leases and hire purchase contracts (note 18)	**89**	98
	5,780	5,915
Loss allowance (note 19)	**(133)**	(197)
Total loans and advances to customers	**5,647**	5,718
Amounts include:		
Due from AIB plc and fellow subsidiaries	**11**	13

Amounts due from AIB plc and fellow subsidiaries were assessed for an ECL at 31 December 2023 and 2022. It was determined that the ECL on the intercompany loans at 31 December 2023 was £nil (2022: £nil).

Further disclosures relevant to AIB UK Group's loans and advances to customers are included in note 20: Credit risk disclosures.

Notes to the financial statements

18. 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	
	2023	2022
	£m	£m
Gross receivables		
Not later than 1 year	**50**	47
Later than 1 year and not later than 2 years	**20**	25
Later than 2 years and not later than 3 years	**14**	15
Later than 3 years and not later than 4 years	**7**	10
Later than 4 years and not later than 5 years	**2**	4
Later than 5 years	**—**	1
Total gross receivables	**93**	102
Unearned future finance income	**(4)**	(4)
Present value of minimum payments	**89**	98
ECL allowance for uncollectible minimum payments receivable(1)	**—**	1

(1)Included in the ECL allowance on loans and advances to customers (note 19).

19. Loss allowance on financial assets

The following table shows the movements in the expected credit loss allowance on financial assets. Further information is disclosed in the Gross loans and ECL movement tables in note 20: Credit risk disclosures. See pages 125 to 126.

	AIB UK Group & AIB UK	
	2023	2022
	£m	£m
At 1 January	**197**	201
Net remeasurement of loss allowance - customers (note 12)	**(16)**	45
Changes in loss allowance due to write-offs	**(31)**	(14)
Changes in loss allowance due to derecognition	**(18)**	(35)
Other	**1**	—
At 31 December	**133**	197
Amount included in financial assets measured at amortised cost:		
Loans and advances to banks	**—**	—
Loans and advances to customers	**133**	197
	133	197

AIB UK Group's accounting policy for impairment of financial assets is set out in note 1.17. 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.

20. 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 and report changes in 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 since date of origination). 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. A financial asset can only originate in either Stage 1 or POCI.

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.

Notes to the financial statements

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, which are in line with regulatory requirements.

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

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 to watch grade 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: For non-retail portfolios a suite of lender assessed triggers are in place 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 met, the account can exit Stage 2 and return to Stage 1, subject to completion of probation period if applicable.

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 112). 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 2023 year end ECL estimates are outlined in the post model adjustments section on page 112.

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.

AIB UK Group applies a quantitative backstop trigger of tripling of probability of default subject to a minimum threshold movement of 30bps to determine whether assets subject to the low credit risk exemption should be allocated to Stage 2. Additionally, if any of such assets are on a watch list based on agreed criteria, 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 assets plus all non-DCF Stage 3 exposures on the standard approach to ECL.

IFRS 9 portfolio delineation
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, for each year of the expected contractual lifetime of the exposure. The PD is a point in time estimate which is reflective of the current and expected economic conditions.

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)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 property 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 is to use a modelled behavioural life estimate for these obligations for ECL calculation purposes.

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')

Post model adjustments ('PMAs') are applied where management believe that they are necessary to ensure an adequate level of ECL provision and to address known model limitations and/or emerging trends not captured in the models. PMAs are approved under the ECL governance process through which the appropriateness of PMAs is considered against the backdrop of the risk profile of the loan book, recent loss history or changes in underlying resolution strategies not captured in the models and management's view of emerging trends. Releases of PMAs will occur as new models are deployed (i.e. mortgage model) or where the risk has been judged by management to be captured in the model outcomes.

The ECL allowance at 31 December 2023 includes the following management adjustments to capture risks that have not been included within the ECL model. The total effect of all PMAs at 31 December 2023 is to increase ECLs by £46m. This compares to £60m at 31 December 2022 which principally incorporated the LGD floor, impact of multiple scenarios and execution costs for an expected sale of non-performing loans.

An adjustment of £27m in relation to emerging headwinds. £13m (non-property business: £9.0m; property: £4.0m) is implemented on the Corporate and CRE PD model's payment shock component to better reflect recent changes in interest rates. In addition, a PMA of £14m (property: £14m) is applied to account for sectors deemed to be materially impacted by refinance risk and by other key risk factors reflective of changing dynamics in the property market.

In total, PMAs of £11m are applied to total Stage 3 loans of £252m. The key PMA within the Stage 3 loans relate to an alternate Stage 3 Strategy PMA of £7m (non-property business: £3m; property: £4m) applied to reflect the possibility that the bank under certain circumstances would choose to pursue an NPE portfolio sale.

Other adjustments of £8m primarily relate (non-property business: £3m; property: £4m) for model recalibration to cover the gap between approval and enablement of in model adjustments. This will be addressed within the models in H1 2024.

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 129 to 131.

The contractual amount outstanding of loans written-off during the year that are still subject to enforcement activity is outlined on page 129 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 consistent with the Parent Group's existing governance process and subject to 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:

Output in the UK economy is now estimated to exceed its pre-pandemic level but not to the degree that other G7 economies have managed. There has been a significant fall-off in trade with the EU as a result of Brexit, which has been an additional headwind for the economy on top of monetary and fiscal tightening and high inflation. The economy has been close to stagnant since early 2022 with the most recent release indicating that GDP declined by 0.3% in Quarter 4 (October to December) 2023 compared to the previous quarter.

In considering the key existing and emerging risks facing the outlook, four scenarios are used in the ECL calculation consisting of a base scenario, along with three alternative scenarios. These consist of one upside; a mild downside scenario entailing persistent inflation with higher-for-longer interest rates; while a more severe downside considers an overly restrictive monetary policy tightening which quickly lowers inflation but, in the process, has a far more negative impact on economic activity than had been anticipated and exposes vulnerabilities in the financial system. These developments necessitate an aggressive series of cuts 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 assumptions for each scenario 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.

Base case: While fears of a recession have eased somewhat in many economies, the economic backdrop remains challenging with subdued global growth, stubborn inflation and interest rates that are expected to remain high over the medium term. Uncertainty also remains elevated.

Given the UK economy is faced with numerous headwinds, including the lagged effects of a sharp tightening of monetary policy, the baseline forecast is for GDP growth to remain rather subdued at 0.7% during 2024. GDP growth is forecast to pick up only moderately in the period 2025-2028. These forecasts were in line with official forecasts.

The latest data show the UK jobless rate rose to 4.2% in Q3 2023, from its post Covid low of 3.5% reached in mid-2022. Given that unemployment in the UK has risen more quickly than anticipated in recent months, partly as a result of high levels of immigration boosting the labour force, we expect the jobless rate to increase to 5.2% by 2025 and to ease back below 5% by 2027-2028. Throughout 2023, many advanced economies experienced a decelerating trend in headline inflation as wholesale energy prices fell back, although it has been somewhat slower to decline in the UK particularly in terms of the core inflation rate which could take a long time to fall back due inter alia to supply side constraints such as a tight labour market and Brexit. It is likely to be 2026 that inflation reaches the 2% rate targeted by the Bank of England.

Official interest rates have plateaued in our view but are not expected to be lowered until the second half of 2024 and are likely to settle at a significantly higher level than was the case prior to the pandemic. House prices declined by 6.5% in 2023 (end-year basis) with a further fall of 2% expected in 2024 given the sharp rises in mortgage rates with a weak recovery thereafter. Following the correction in commercial property prices in the past couple of years, there are some signs that the market is stabilising, with some modest recovery in prices in prospect over the 2024-2028 period.

Downside 1 (‘Persistent inflation’): In this moderate downside scenario, a combination of high wage inflation, further margin widening by firms, and deepening geopolitical fragmentation (that weighs on global trade, impacting supply chains and boosting commodity prices) implies that inflation remains very high during 2024-2025. Central banks are forced to continue raising interest rates into 2025. Conditions in financial markets continue to tighten, with further rises in bond yields and credit spreads and a resumption of contracting stock markets. As a result, the major economies all experience a significant recession in 2024, followed by a sluggish recovery in activity.

GDP in the UK contracts by 1.0% and 0.5% in 2024 and 2025, respectively. GDP is 4% lower compared to the base case by 2026. There is also a marked rise in unemployment to 8% in 2026. The recession and sharp rise in unemployment eventually sees inflation move decidedly lower by late 2025. There are very big falls in property prices with residential and commercial property prices declining by circa 12% and 14%, respectively, by 2026.

The Bank of England raises official rates to 7% by mid-2025. Rates are then cut aggressively from Q4 2025 onwards (to circa 1.5% by early-2027) as inflation falls sharply before remaining on hold, as inflation stabilises around 2%.

Downside 2 ('Credit crunch'): In this severe scenario, the tightening of monetary policy has a far more negative impact on economic activity than had been anticipated by central banks, with higher interest rates exposing further vulnerabilities in the financial system in advanced economies during 2024, as well as default risks in Emerging Economies in relation to increased difficulties servicing and refinancing elevated debts and deficits. Banks take a far more cautious approach to lending activities, as they are hit by rising bad debts with property prices falling sharply, especially in the commercial real estate ('CRE') market. Additionally, growth in the Chinese economy is greatly curtailed amid ongoing balance sheet adjustments in both the property market and financial sector. As a result, the world economy experiences in effect a credit crunch, with rising bad debts.

The lagged effects of the marked monetary tightening, in particular a sharp tightening in credit conditions, triggers a severe global recession. The UK economy contracts by 4% in cumulative terms and is more than 7% lower than baseline by 2026. There is a modest pick-up in global and UK activity from 2026 onwards after interest rates are lowered aggressively during 2024-2025 and inflation falls back to its 2% target.

The rate of unemployment rises quickly and to very high levels in the main economies, with the UK rate reaching an average of 10.5% by 2027.

Given that the main advanced economies enter a deep recession in 2024-2025, there are very large property price falls in the UK with residential property prices falling by a cumulative 27% over the 2024-2026 period, followed by a sluggish recovery thereafter. Commercial property prices decline by 33% cumulatively over the same period, which takes them 48% below their previous peak.

Central banks lower rates aggressively as economies enter a deep recession. Rates are cut to 1.5% in the UK by end 2025 and put on hold thereafter to end 2028, with inflation stabilising at 2% from 2025 onwards..

Upside ('Quick recovery'): In this upside scenario, several favourable tailwinds prevail including an end to the war in Ukraine in the second half of 2024, and a faster than anticipated rundown of personal and corporate savings (which boosts business and consumer sentiment). Financial markets are also positively impacted, which combined with faster labour force growth, raises global economic activity.

GDP is more than 3% higher in the UK than in the base case by 2026, with average annual growth of more than 2% per annum between 2024 and 2026. As a result, unemployment falls to historic lows. With more rapid economic activity, inflation is slower to decline than in the base case, reaching an average of 2% by 2028.

With the stronger growth in economic activity, property prices perform much better than in the base case scenario. with UK prices more than 7% higher relative to Base by 2026. Commercial property prices rise by circa 21% in cumulative terms over the 2024-2026 period.

Central banks continuing hiking rates in 2024 and to much higher levels than in the base case. Rates rise to a peak of 7.0% in the UK by end 2024. They are kept on hold at these levels until the second half of 2028.

Notes to the financial statements

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 2023 (average over 2024-2028) and at 31 December 2022 (average over 2023-2027).

All of the macroeconomic scenarios reported in the table below are those used and approved prior to the year-end 2023.

				2023
	5 year (2024-2028) average forecast			
Macroeconomic factor (%)	**Base**	**Downside 1 ('Persistent inflation')**	**Downside 2 ('Credit crunch')**	**Upside ('Quick recovery')**
United Kingdom				
GDP growth	**1.2**	**0.4**	**(0.1)**	**1.8**
Residential property price growth	**1.2**	**(1.2)**	**(5.4)**	**3.0**
Unemployment rate	**5.0**	**7.2**	**9.1**	**3.8**
Commercial property price growth	**3.3**	**(2.0)**	**(6.1)**	**5.5**
Inflation	**2.4**	**3.9**	**2.3**	**4.0**

				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

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 2023.

	Estimate					**Base**					**Downside 1**
	2023	**2024**	**2025**	**2026**	**2027**	**2028**	**2024**	**2025**	**2026**	**2027**	**2028**
Macroeconomic factor (%)	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
GDP growth	**0.5**	**0.7**	**1.2**	**1.5**	**1.4**	**1.3**	**(1.0)**	**(0.5)**	**0.8**	**1.3**	**1.6**
Residential property price growth	**(6.5)**	**(2.0)**	**2.0**	**2.0**	**2.0**	**2.0**	**(10.5)**	**(3.0)**	**1.5**	**3.0**	**3.0**
Unemployment rate	**4.3**	**4.9**	**5.2**	**5.0**	**4.9**	**4.8**	**5.5**	**7.0**	**8.0**	**8.0**	**7.5**
Commercial property price growth	**(2.5)**	**5.0**	**3.5**	**3.0**	**3.0**	**2.0**	**(12.5)**	**(3.0)**	**1.5**	**2.0**	**2.0**
Inflation	**8.0**	**4.0**	**2.2**	**2.0**	**2.0**	**2.0**	**7.0**	**5.5**	**3.0**	**2.0**	**2.0**

					Downside 2					**Upside**
	2024	**2025**	**2026**	**2027**	**2028**	**2024**	**2025**	**2026**	**2027**	**2028**
Macroeconomic factor (%)	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
GDP growth	**(2.5)**	**(2.0)**	**0.50**	**1.5**	**2.0**	**2.0**	**2.5**	**2.0**	**1.5**	**1.2**
Residential property price growth	**(12.5)**	**(15.0)**	**(2.0)**	**1.0**	**1.5**	**3.0**	**3.0**	**3.0**	**3.0**	**3.0**
Unemployment rate	**6.3**	**8.5**	**10.0**	**10.5**	**10.0**	**4.3**	**3.9**	**3.7**	**3.5**	**3.6**
Commercial property price growth	**(15.5)**	**(17.0)**	**(4.5)**	**2.5**	**4.0**	**7.0**	**7.0**	**5.5**	**4.0**	**4.0**
Inflation	**3.5**	**2.0**	**2.0**	**2.0**	**2.0**	**7.0**	**5.0**	**3.7**	**2.5**	**2.0**

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.

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, but informed by quantitative analysis (e.g., early warning indicators of economic activity) where possible.

The key drivers of the weightings at the reporting date are:
- The Base scenario assumptions for global growth remain very subdued when viewed in a historical context. UK GDP growth has been revised slightly upwards relative to the half-year outlook. For the period 2024-2026, growth is now expected to average over 1% per annum and is aligned with official forecasts.
- With regard to the scenario probability weightings, the risks to growth remain very much to the downside as highlighted in recent commentary from institutions such as the OECD and IMF. Many economies have lost momentum and central banks have indicated that interest rates may have to remain higher for longer to restore price stability given fears that core inflation may prove persistent.
- A sharper than expected slowdown in China is a significant risk also, especially if the real estate crisis deepens further. Geo-political risks remain elevated and have been exacerbated by the conflict in Gaza, while the outcome of the US presidential election at the end of 2024 could add to global uncertainty.
- Despite these downside risks, compared to December 2022, the more substantial risks to the downside have somewhat alleviated due to a lower impact from tighter monetary policy than previously anticipated. Hence the weighting associated with the Downside 2 scenario has reduced from 15% to 10%.

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

Scenario	**Weighting 31 December 2023**
Base	**50 %**
Downside 1 ('Persistent inflation')	**30 %**
Downside 2 ('Credit crunch')	**10 %**
Upside ('Quick recovery')	**10 %**

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 %

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 provide an indication of ECL movements that include changes in model estimates, and quantitative 'significant increase in credit risk' ('SICR') staging assignments with a single 100% weighting applied individually. Increased sensitivity for the downside 2 'Credit crunch' scenario is evident in the 2023 sensitivities compared to Reported and 100% base, driven predominantly by underlying model and staging sensitivities (including a redeveloped mortgage model suite) across all key risk parameters, some more negative macro assumptions and an element of macro sensitive PMA allocation where relevant. Further details on post model adjustments are outlined on page 112.

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 2023 and 2022 with the sensitivity based on application of 100% weighting to each of the economic scenarios.

					2023
	Reported	100% Base	100% Downside 1 ('Persistent inflation')	100% Downside 2 ('Credit crunch')	100% Upside ('Quick recovery')
Loans and advances to customers	£m	£m	£m	£m	£m
Residential mortgages	4	4	4	4	4
Other personal	1	1	1	1	1
Property and construction	42	41	47	46	39
Non-property business	86	84	92	92	81
Total	133	130	144	143	125
Off-balance sheet loan commitments and financial guarantee contracts	6	3	4	5	3
	139	133	148	148	128

					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 and financial guarantee contracts	9	8	8	10	7
	206	180	217	282	166

(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. In addition to a number of key initiatives introduced by AIB UK Group to date, throughout 2023, further sector specific rules and limitations were incorporated into credit policies within a defined climate-related and environmental risk appetite. The ESG Questionnaire continues to be used in credit applications for borrowers in high climate risk sectors where the new lending is over £300k. In 2023, work continued to further enhance and refine it, broadening the scope of coverage at both customer and sector level.

The impact of climate risk on the management, escalating and reporting of credit risk was considered by AIB UK Group. There is currently no reasonable and supportable information that indicates a material impact of climate change on ECLs and AIB UK Group's approach to individual counterparty risk assessment adequately captures climate risk where appropriate. The impact of climate risk will continue to be monitored in 2024 to ensure ECLs appropriately reflect latent risk from potentially emerging climate risks.

(e) Maximum exposure to credit risk

Maximum exposure to credit risk from on-balance sheet and off-balance sheet financial instruments is presented before taking account of any collateral held or other credit enhancements (unless such enhancements meet accounting offsetting requirements). For financial assets recognised on the statement of financial position, the maximum exposure to credit risk is their carrying amount, and for financial guarantees and similar contracts granted, it is the maximum amount 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.

The following table sets out the maximum exposure to credit risk that arises within AIB UK Group at 31 December 2023 and 2022.

Statement of financial position	**2023** **£m**	2022 £m
Balances at central banks at amortised cost[1]	**3,192**	3,879
Derivative financial instruments at FVTPL	**186**	220
Loans and advances to banks	**502**	555
Loans and advances to customers	**5,647**	5,718
Prepayments and accrued income	**4**	7
Other assets	**13**	55
	9,544	10,434
Total off-balance sheet items	**2,281**	2,321
Maximum exposure to credit risk	**11,825**	12,755

[1]Included within Cash and balances at central banks (does not include cash on hand).

(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 who experience financial difficulties in line with agreed treatment strategies.

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

Using internal models, AIB UK Group utilises a credit grading masterscale that gives it the ability to categorise and contrast credit risk across different rating models and portfolios in a consistent manner. The masterscale consolidates complex credit information into a single attribute, aligning the output from the risk models with 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 for 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.

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 2023 and 2022:

Amortised cost

				2023
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Strong	4,050	183	—	4,233
Satisfactory	812	186	—	998
Total strong/satisfactory	4,862	369	—	5,231
Criticised watch	17	130	—	147
Criticised recovery	—	149	—	149
Total criticised	17	279	—	296
Non-performing	—	—	253	253
Gross carrying amount	4,879	648	253	5,780
ECL allowance	(39)	(41)	(53)	(133)
Carrying amount	4,840	607	200	5,647

Amortised cost

				2022
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Strong	3,847	112	—	3,959
Satisfactory	746	346	—	1,092
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

Notes to the financial statements

(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.

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 2023 the most significant concentration of exposures were to the property and construction sector, which made up 31% (2022: 26%) of loans and advances to customers, natural resources 23% (2022: 21%), residential mortgages 14% (2022: 15%), and transport and storage 8% (2022: 7%) 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 2023 and 2022:

							2023
	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[1]:							
Natural resources	1,347	544	1,891	1,773	99	19	1,891
Of which renewables	*1,059*	*370*	*1,429*	*1,414*	*15*	*—*	*1,429*
Leisure	382	96	478	293	111	74	478
Manufacturing	106	194	300	275	13	12	300
Health, education and social work	298	52	350	269	63	18	350
Services	242	126	368	320	43	5	368
Agriculture, forestry and fishing	53	12	65	41	20	4	65
Retail and wholesale trade	79	65	144	119	17	8	144
Transport and storage	438	79	517	426	64	27	517
Telecommunications, media and technology	136	95	231	224	1	6	231
Financial, insurance and other government activities	66	68	134	122	12	—	134
Total non-property business	3,147	1,331	4,478	3,862	443	173	4,478
Property and construction	1,786	817	2,603	2,244	303	56	2,603
Residential mortgages	786	—	786	731	20	35	786
Other personal	61	133	194	177	15	2	194
	5,780	2,281	8,061	7,014	781	266	8,061

[1]In 2023, AIB UK Group undertook a review of the industry sector codes included under non-property business. These changes in presentation provide more relevant information on AIB UK Group's non-property business exposures. The 2022 comparative period has also been restated.

Concentration by sector	Gross carrying amount Loans and advances to customers £m	Loan commitments and financial guarantees issued £m	Total £m	Analysed by ECL profile Stage 1 £m	Stage 2 £m	Stage 3 £m	2022 Total £m
Non-property business[1]:							
Natural Resources	1,266	504	1,770	1,631	134	5	1,770
Of which renewables	*871*	*239*	*1,110*	*1,010*	*100*	—	*1,110*
Leisure	591	128	719	234	360	125	719
Manufacturing	168	124	292	238	14	40	292
Health, education and social work	376	59	435	325	73	37	435
Services	253	130	383	303	69	11	383
Agriculture, forestry and fishing	59	13	72	50	19	3	72
Retail and wholesale trade	141	73	214	161	43	10	214
Transport and storage	385	112	497	327	170	—	497
Telecommunications, media and technology	119	129	248	225	16	7	248
Financial, insurance and other government activities	75	137	212	196	15	1	212
Total non-property business	3,433	1,409	4,842	3,690	913	239	4,842
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	6,762	1,131	343	8,236

[1]In 2023, AIB UK Group undertook a review of the industry sector codes included under non-property business. These changes in presentation provide more relevant information on AIB UK Group's non-property business exposures. The 2022 comparative period has also been restated.

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 2023 and 2022.

At amortised cost

							2023
	Not past due	1-30 days	31-60 days	61-90 days	91 + days	Total past due	Total
Industry sector	£m	£m	£m	£m	£m	£m	£m
Non-property business[1]:							
Natural Resources	1,345	—	—	—	2	2	1,347
Of which renewables	*1,059*	—	—	—	—	—	*1,059*
Leisure	340	37	1	—	4	42	382
Manufacturing	104	—	1	—	1	2	106
Health, education and social work	279	18	1	—	—	19	298
Services	237	3	—	—	2	5	242
Agriculture, forestry and fishing	49	1	2	—	1	4	53
Retail and wholesale trade	72	6	—	—	1	7	79
Transport and storage	438	—	—	—	—	—	438
Telecommunications, media and technology	136	—	—	—	—	—	136
Financial, insurance and other government activities	66	—	—	—	—	—	66
Property and construction	1,769	3	7	—	7	17	1,786
Residential mortgages	752	14	1	4	15	34	786
Other personal	59	—	—	—	2	2	61
Total gross carrying amount	5,646	82	13	4	35	134	5,780
Asset quality							
Stage 1	4,865	14	—	—	—	14	4,879
Stage 2	614	29	3	2	—	34	648
Stage 3	167	39	10	2	35	86	253
	5,646	82	13	4	35	134	5,780
As a percentage of total gross loans	%	%	%	%	%	%	%
	97.7	1.4	0.2	0.1	0.6	2.3	100

[1]In 2023, AIB UK Group undertook a review of the industry sector codes included under non-property business. These changes in presentation provide more relevant information on AIB UK Group's non-property business exposures. The 2022 comparative period has also been restated.

At amortised cost

							2022
	Not past due	1-30 days	31-60 days	61-90 days	91 + days	Total past due	Total
Industry sector	£m	£m	£m	£m	£m	**£m**	£m
Non-property business[1]:							
Natural Resources	1,251	15	—	—	—	15	1,266
Of which renewables	*856*	*15*	—	—	—	*15*	*871*
Leisure	554	25	3	—	9	37	591
Manufacturing	165	1	1	—	1	3	168
Health, education and social work	375	1	—	—	—	1	376
Services	244	5	1	—	3	9	253
Agriculture, forestry and fishing	58	1	—	—	—	1	59
Retail and wholesale trade	120	20	—	—	1	21	141
Transport and storage	385	—	—	—	—	—	385
Telecommunications, media and technology	112	—	—	—	7	7	119
Financial, insurance and other government activities	75	—	—	—	—	—	75
Total non-property business	3,339	68	5	—	21	94	3,433
Property and construction	1,442	48	11	14	27	100	1,542
Residential mortgages	851	6	1	2	15	24	875
Other personal	63	1	—	—	1	2	65
Total gross carrying amount	5,695	123	17	16	64	220	5,915
Asset quality							
Stage 1	4,578	36	—	—	—	36	4,614
Stage 2	908	51	12	1	—	64	972
Stage 3	209	36	5	15	64	120	329
	5,695	123	17	16	64	220	5,915
As a percentage of total gross loans		%	%	%	%	%	%
	96.0	2.0	—	—	1.0	3.0	100

[1]In 2023, AIB UK Group undertook a review of the industry sector codes included under non-property business. These changes in presentation provide more relevant information on AIB UK Group's non-property business exposures. The 2022 comparative period has also been restated.

(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 at amortised cost by ECL staging between 1 January 2023 and 31 December 2023 and the corresponding movements between 1 January 2022 and 31 December 2022.

Accounts that triggered movements between Stage 1 and Stage 2 as a result of failing/curing a quantitative measure only (as disclosed on page 108) 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			
	2023			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
At 1 January	**4,614**	**972**	**329**	**5,915**
Transferred from Stage 1 to Stage 2	**(714)**	**714**	**—**	**—**
Transferred from Stage 2 to Stage 1	**520**	**(520)**	**—**	**—**
Transferred to Stage 3	**(3)**	**(192)**	**195**	**—**
Transferred from Stage 3	**5**	**17**	**(22)**	**—**
New loans originated/top-ups[2]	**1,288**	**—**	**—**	**1,288**
Redemptions/repayments[2][3]	**(1,091)**	**(397)**	**(189)**	**(1,677)**
Interest applied	**284**	**66**	**18**	**368**
Write-offs	**—**	**—**	**(31)**	**(31)**
Derecognised due to disposals	**(2)**	**(3)**	**(47)**	**(52)**
Exchange translation adjustments	**(3)**	**—**	**(1)**	**(4)**
Other movements	**(19)**	**(9)**	**1**	**(27)**
At 31 December	**4,879**	**648**	**253**	**5,780**

	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

The presentation of loan movements in the above tables differs from the movements table reported in the Financial review on page 16.

(1)The gross carrying amount movement is recorded at each month end with movements calculated versus the position at previous month end. The sum of all 12 months movement is then presented.

(2)Includes loans renegotiated.

(3)Includes the net movement on revolving credit facilities.

ECL allowance movements

	AIB UK Group & AIB UK			
				2023
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
At 1 January	**33**	**82**	**82**	**197**
Transferred from Stage 1 to Stage 2	**(7)**	**18**	**—**	**11**
Transferred from Stage 2 to Stage 1	**8**	**(28)**	**—**	**(20)**
Transferred to Stage 3	**—**	**(8)**	**19**	**11**
Transferred from Stage 3	**—**	**2**	**(2)**	**—**
Net remeasurement	**(8)**	**(6)**	**1**	**(13)**
New loans originated/top-ups	**9**	**—**	**—**	**9**
Redemptions/repayments	**(2)**	**(8)**	**—**	**(10)**
Impact of model and overlay changes	**7**	**(6)**	**4**	**5**
Impact of credit or economic risk parameters	**(5)**	**(3)**	**(1)**	**(9)**
Income statement net credit impairment charge/ (writeback)	**2**	**(39)**	**21**	**(16)**
Write-offs	**—**	**—**	**(31)**	**(31)**
Derecognised due to disposals	**—**	**—**	**(18)**	**(18)**
Other movements	**4**	**(2)**	**(1)**	**1**
At 31 December	**39**	**41**	**53**	**133**

	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 remeasurement	(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

(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 2023 and 2022:

Nominal amount movements

	AIB UK Group & AIB UK			
	2023			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
At 1 January	**2,147**	**159**	**15**	**2,321**
Transferred from Stage 1 to Stage 2	**(657)**	**657**	**—**	**—**
Transferred from Stage 2 to Stage 1	**494**	**(494)**	**—**	**—**
Transferred to Stage 3	**(17)**	**(9)**	**26**	**—**
Transferred from Stage 3	**7**	**5**	**(12)**	**—**
Net movement[1]	**158**	**(184)**	**(14)**	**(40)**
At 31 December	**2,132**	**134**	**15**	**2,281**

	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[1]	212	(8)	(28)	176
At 31 December	2,147	159	15	2,321

[1]Includes new commitments, utilised and expired commitments.

ECL allowance movements

	AIB UK Group & AIB UK			
	2023			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
At 1 January	**4**	**2**	**3**	**9**
Transferred from Stage 1 to Stage 2	**—**	**—**	**—**	**—**
Transferred from Stage 2 to Stage 1	**1**	**(2)**	**—**	**(1)**
Transferred to Stage 3	**—**	**—**	**—**	**—**
Transferred from Stage 3	**—**	**—**	**—**	**—**
Net re-measurement	**(2)**	**1**	**(1)**	**(2)**
Net income statement credit	**(1)**	**(1)**	**(1)**	**(3)**
Other movements	**—**	**1**	**(1)**	**—**
At 31 December	**3**	**2**	**1**	**6**

	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

(j) Credit ratings of contingent liabilities and commitments
The internal credit ratings of contingent liabilities and commitments are set out in the following table:

	2023	2022
	£m	£m
Strong	**2,108**	1,898
Satisfactory	**144**	356
Criticised watch	**11**	45
Criticised recovery	**5**	9
Default	**13**	13
	2,281	2,321

(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 and/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.

Write-offs
The contractual amount outstanding of loans written-off during the year that are subject to enforcement activity amounted to £nil (2022: £0.01m) which includes both full and partial write-offs. Total cumulative non-contracted loans written-off at 31 December 2023 amounted to £3m (2022: £5m).

(l) 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 2023 and 2022:

					2023
	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	12	—	1	32	45 (1)
Permanent forbearance	6	—	31	218	255 (2)
Total	18	—	32	250	300
Analysed by internal credit ratings					
Strong	—	—	—	—	—
Satisfactory	—	—	—	—	—
Total strong/satisfactory	—	—	—	—	—
Criticised watch	—	—	—	—	—
Criticised recovery	3	—	27	119	149
Total criticised	3	—	27	119	149
Non-performing	15	—	5	131	151
Gross carrying amount	18	—	32	250	300
Analysed by ECL staging					
Stage 1	—	—	—	—	—
Stage 2	3	—	27	119	149
Stage 3	15	—	5	131	151
POCI	—	—	—	—	—
Total	18	—	32	250	300
ECL allowance	2	—	5	35	42

(1) Of which: interest only £25m, payment moratorium £5m, reduced payment £7m.

(2) Of which: amendment to or non-enforcement of financial covenant £71m, restructure £44m, arrears capitalisation and term extension £114m.

					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 strong/satisfactory	—	—	—	—	—	
Criticised watch	—	—	—	—	—	
Criticised recovery	4	—	29	328	361	
Total criticised	4	—	29	328	361	
Non-performing	10	—	56	167	233	
Gross carrying amount	14	—	85	495	594	
Analysed by ECL staging						
Stage 1	—	—	—	—	—	
Stage 2	4	—	29	328	361	
Stage 3	10	—	56	167	233	
POCI	—	—	—	—	—	
Total	14	—	85	495	594	
ECL allowance	1	—	20	96	117	

(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.

21. Investment securities

	AIB UK Group & AIB UK	
	2023	2022
	£m	£m
Equity securities		
Equity shares (unlisted) - measured at FVTPL	**73**	50
Total equity securities	**73**	50
Total investment securities	**73**	50

The judgement and 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 alternative assumptions in the fair value calculation at 31 December 2023 and 2022 is set out in note 2 and in note 40: Fair value of financial instruments.

Notes to the financial statements

22. Investments in group undertakings

	AIB UK	
	2023	2022
	£m	£m
At 1 January	**1**	1
At 31 December	**1**	1

The subsidiary undertakings at 31 December 2023:

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.
AIB Joint Ventures Limited	31 December	Investment	England and Wales	St. Helen's, 1 Undershaft, London, EC3A 8AB, England.
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.

At 31 December 2022, AIB UK held 100% of the ordinary shares of First Trust Financial Planning Limited and First Trust Leasing No.4 (Northern Ireland) Limited which had ceased trading and were dissolved on 14 February 2023.

At 31 December 2023, AIB UK Group held no investments in associated undertakings (2022: 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 2023, a dividend of £6m was received from First Trust Financial Service Limited. In 2022: a dividend of £0.2m was received from First Trust Financial Planning Limited and a dividend of £0.7m was received from First Trust Leasing No.4 (Northern Ireland) Limited.

Impairment of subsidiary undertakings

In 2023, there was no impairment charge on the investments in subsidiaries. In 2022, there was an impairment charge on the investment in First Trust Financial Planning Limited of £0.2m and First Trust Leasing No.4 (Northern Ireland) Limited of £0.1m.

23. Intangible assets

	AIB UK Group & AIB UK			
	2023			
	Software externally purchased £m	Software internally generated £m	Software under construction £m	Total £m
Cost				
At 1 January	1	46	1	48
Additions	—	2	2	4
Amounts written-off[1]	—	(1)	—	(1)
At 31 December	1	47	3	51
Amortisation/impairment				
At 1 January	1	32	—	33
Amortisation for the year[2]	—	6	—	6
Amounts written-off[1]	—	(1)	—	(1)
At 31 December	1	37	—	38
Carrying value at 31 December	—	10	3	13

	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[2]	—	8	—	8
Amounts written off[1]	(1)	(2)	—	(3)
At 31 December	1	32	—	33
Carrying value at 31 December	—	14	1	15

[1]Relates to assets which are no longer in use with a £nil carrying value.
[2]Included in 'Impairment and amortisation of intangible assets' in the consolidated income statement.

All intangible assets at 31 December 2023 and 2022 have finite useful lives.

Future capital expenditure in relation to both intangible assets and property, plant and equipment is set out in note 24.

24. Property, plant and equipment

	AIB UK Group and AIB UK				
	2023				
	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	4	10	14	46
Additions	—	—	—	10	10
Amounts written-off[1]	—	—	—	(1)	(1)
Other	—	—	—	5	5
At 31 December	18	4	10	28	60
Depreciation and impairment					
At 1 January	1	3	6	9	19
Depreciation charge for the year[2]	1	—	1	2	4
Amounts written-off[1]	—	—	—	(1)	(1)
Other	—	—	—	5	5
At 31 December	2	3	7	15	27
Carrying value at 31 December	16	1	3	13	33

(1)Relates to assets which are no longer in use with a £nil carrying value.
(2)Included in 'Impairment and depreciation of property, plant and equipment' in the consolidated income statement.

The net carrying value of property occupied by AIB UK Group for its own activities at 31 December 2023 was £9m (2022: £11m) in relation to owned assets and £13m in relation to right-of-use assets (2022: £5m). Property leased to others by AIB UK Group had a carrying value of £8m (2022: £7m)

	Freehold	Leasehold under 50 years	Equipment	Right-of-use assets Property	Total
	AIB UK Group and AIB UK				
					2022
	Owned assets			Leased assets	Total
	Property		Equipment	Right-of-use assets	
	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[(2)]	—	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 consolidated income statement. The impairment charge 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.

Three NI branch properties were sold during 2022 for a total profit of £2m (note 9).

Future capital expenditure

Future capital expenditure relates to both property, plant and equipment and intangible assets. There is £nil (2022: £nil) estimated outstanding commitments for capital expenditure not provided for in the financial statements.

Capital expenditure authorised but not yet contracted for is £1m (2022: £1m).

Leased Assets

Property

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 30.

25. Other assets

	AIB UK Group & AIB UK	
	2023	2022
	£m	£m
Proceeds due from disposal of loan portfolio	**—**	34
Items in transit	**5**	11
Items in course of collection	**3**	4
Other debtors	**5**	6
	13	55

26. Deferred taxation

	AIB UK Group & AIB UK	
	2023	2022
	£m	£m
Deferred tax assets		
Unutilised tax losses	**161**	166
Cash flow hedges	**53**	81
Other	**6**	7
Total gross deferred tax assets	**220**	254
Deferred tax liabilities		
Retirement benefits	**(15)**	(15)
Total gross deferred tax liabilities	**(15)**	(15)
Net deferred tax assets	**205**	239
Represented on the statement of financial position:		
Deferred tax assets	**207**	241
Deferred tax liabilities	**(2)**	(2)

Analysis of movements in deferred taxation

	2023	2022
	£m	£m
At 1 January	**239**	135
Deferred tax through other comprehensive income	**(26)**	107
Income statement (note 13)	**(6)**	(3)
Other adjustments	**(2)**	—
At 31 December	**205**	239

AIB UK Group's accounting policy for deferred tax is set out in note 1.9.

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28%, 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 increased from 19% to 25% and the banking surcharge reduced from 8% to 3% with effect from 1 April 2023. The deferred tax asset at 31 December 2023 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 25%.

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 delivered a pre-tax profit of £337m in 2023, (£138m in 2022 and £89m in 2021) having returned to profitability following a loss in 2020, due to higher ECLs during the COVID-19 pandemic;
- 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 (driven by the financial crash);
- AIB UK Group implemented a revised strategy and reorganised structure in 2021 and completed loan sales in 2022 and 2023, as part of this strategy, including the sale of the AIB GB SME loans and the sale of a portfolio of non-performing loans. The programme of managed exit of the AIB GB SME customer balances was also completed in 2023; 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 due to the COVID-19 pandemic;
- uncertainty continues to exist around the long term impact of the current geopolitical landscape;
- the planned new lending from 2024 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 (2022: fifteen years). The Board has considered the plan for 2024-2026 and the AIB UK strategy and has based the forecast taxable profits on the three years of the AIB UK Group Business Plan with 2% growth assumed for 2027 and 2028 and minimal growth forecast for the longer term. As a result, a deferred tax asset on unutilised tax losses of £2,161m (2022: £2,208m) 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 2024-2026 was assumed to be 5% higher (or lower) than planned, the deferred tax asset balance at 31 December 2023 would increase (or decrease) by £9m to £170m (or £152m).
- Change in profit growth assumption: 0% growth in profits has been assumed from 2029 onwards. If this assumption was changed to 2% growth for all years from 2029 to 2038, while maintaining a 15 year restriction and other base assumptions, the deferred tax asset balance at 31 December 2023 would increase by £13m to £174m.
- 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 65 years from 31 December 2023. 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 2023 by £54m.

The deferred tax asset due after more than one year is £150m (2022: £156m).

27. Retirement benefits

AIB UK Group operates a defined contribution scheme and a funded defined benefit scheme for employees.

Defined contribution scheme

From 1 January 2014, all staff accrue future pension benefits on a defined contribution basis with a standard employer contribution rate of 10%. An additional matched employer contribution subject to limits based on age bands of 2%, 5% or 8% is also paid into the scheme. 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 2023 was £6m (2022: £6m) 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 2023 is 12 years (2022: 13 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 2025, 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. There were no conversions from the APP policy to the PBI policy in 2023.

(e) Contributions

The 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 followed by a final balancing contribution expected to be £5m, based on latest estimates. Part of the contributions is being utilised to convert the deferred APP to a buy-in each year, with full buy-in expected to be achieved by Q1 2025.

To fund the contributions, the Parent Group established a pension funding partnership, AIB PFP Scottish Limited Partnership ('the SLP'), in October 2013 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 loans were withdrawn from the SLP on 30 June 2023, in accordance with the partnership agreement, when the SLP had received sufficient repayments from the loans, since inception, to meet the maximum funding requirements to the Scheme.

(f) Administration expenses

From 1 May 2019 the UK Scheme administration expenses have been paid from the scheme assets. A £2m charge (2022: £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 2023 and 2022.

(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 2023 £0.4m (2022: £6m) 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	2023 %	2022 %
Rate of increase of pensions in payment	**3.0**	3.1
Discount rate	**4.8**	5.0
Inflation assumptions		
– Retail Price Index	**3.0**	3.1
– Consumer Price Index	**2.6**	2.6

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

Demographic assumptions include assumptions for mortality, proportions married, commutation and retirement age. The mortality assumption has the most material impact on changes in demographic assumptions and further details on this assumption are set out below.

The mortality tables used for 2023 and 2022 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 2023 and 2022 are as set out below.

	Retiring today at age 63		Retiring at age 63, currently aged 53	
Life expectancy from age 63	2023	2022	2023	2022
Male	**24.3**	25.0	**24.6**	25.3
Female	**26.2**	26.8	**27.2**	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 2023 and 2022.

	2023			2022		
	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	(607)	664	57	(943)	1,104	161
Included in income statement						
Interest (cost)/income	(29)	32	3	(17)	20	3
Administration expenses	—	(2)	(2)	—	(2)	(2)
	(29)	30	1	(17)	18	1
Included in other comprehensive income						
Remeasurement gain/(loss):						
- Actuarial gain/(loss) arising from:						
- Experience adjustments	(10)	—	(10)	(81)	—	(81)
- Changes in demographic assumptions	14	—	14	15	—	15
- Changes in financial assumptions	(8)	—	(8)	382	—	382
- Return on scheme assets excluding SLP	—	1	1	—	(368)	(368)
- Contribution of asset from SLP to scheme assets	—	19	19	—	19	19
- Return on SLP assets	—	(20)	(20)	—	(72)	(72)
	(4)	—	(4)	316	(421)	(105)
Other						
Benefits paid	33	(33)	—	37	(37)	—
At 31 December	(607)	661	54	(607)	664	57

(l) Fair value of plan assets

The following table sets out the fair value of the assets held by the UK Pension Scheme.

	2023		2022	
	Value	Plan assets	Value	Plan assets
	£m	%	£m	%
Pensioner buy-in	533	81	537	81
Assured payment policy	73	11	69	10
Cash	19	3	4	1
SLP assets	36	5	54	8
Fair value of scheme assets at 31 December	661	100	664	100
Actuarial value of liability	(607)		(607)	
Surplus in scheme	54		57	
Related deferred tax liability (note 26)	(15)		(15)	
Net pension asset	39		42	

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 2023 uses a discounted cash flow approach and 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% (2022: 28%) 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 defined benefit asset at 31 December 2023 was £18m (2022: £3m).

(m) Sensitivity of assumptions

Defined benefit obligation

There are inherent uncertainties surrounding the financial assumptions adopted in calculating the liabilities of the pension scheme. The following table shows the sensitivity of the defined benefit obligation valuation of £607m at 31 December 2023 to changes in the key financial and demographic assumptions. The changes in below 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)	(17)	18
Inflation (0.25% movement)	17	(17)
Mortality (1 year movement)	16	(15)

Assured payment policy

A 0.25% increase (or decrease) in the discount rate would increase (or decrease) the APP valuation of £73m at 31 December 2023 by £4m.

SLP assets

A 0.25% increase (or decrease) in the discount rate would decrease (or increase) the SLP assets valuation of £36m at 31 December 2023 by £0.1m.

Notes to the financial statements

28. Deposits by central banks and banks

	AIB UK Group & AIB UK	
	2023	2022
	£m	£m
Central banks		
Borrowings - secured	**253**	252
Banks		
Other borrowings - unsecured	**101**	138
	354	390
Amounts include:		
Due to AIB plc and fellow subsidiaries	**101**	138

Borrowings from central banks includes £250m borrowed from the Bank of England in March 2021 under the Term Funding Scheme for Small and Medium-sized Enterprises, secured against pre-positioned collateral.

At 31 December 2023 and 2022, there were no securities sold under agreements to repurchase.

29. Customer accounts

	AIB UK Group		AIB UK	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Current accounts	**4,081**	5,299	**4,081**	5,299
Demand deposits	**1,502**	1,672	**1,505**	1,681
Time deposits	**1,535**	1,233	**1,535**	1,233
	7,118	8,204	**7,121**	8,213
Amounts include:				
Due to AIB plc and fellow subsidiaries	**4**	13	**7**	22

30. Lease liabilities

	AIB UK Group & AIB UK	
	2023	2022
	£m	£m
At 31 December	**14**	8
Maturity analysis - contractual undiscounted cash flows:		
Not later than one year	**4**	3
Later than one year and not later than five years	**8**	6
Later than five years	**8**	1
Total undiscounted lease liabilities at end of year	**20**	10

Analysis of movements in lease liabilities

	2023	2022
	£m	£m
At 1 January	**8**	17
Lease payments[1]	**(3)**	(4)
Interest expense[1]	**—**	—
Additions	**9**	—
Early terminations	**—**	(5)
At 31 December	**14**	8

[1]Repayment of principal portion of the lease liabilities amounted to £3m (2022: £4m), i.e. lease payments net of interest expense.

31. Other liabilities

	AIB UK Group & AIB UK	
	2023	2022
	£m	£m
Notes in circulation[1]	**30**	36
Items in transit	**15**	7
Other creditors	**33**	37
	78	80

[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.

32. Provisions for liabilities and commitments

AIB UK Group has presented customer redress, restructuring and other provisions as separate classes of provisions. Litigation, onerous contracts and property dilapidations, which were previously presented separately, are now included within other provisions The related comparatives for 2022 have been restated.

	AIB UK Group & AIB UK			
				2023
	Customer redress	**Restructuring**	**Other provisions**	**Total**
	£m	**£m**	**£m**	**£m**
Provisions (excluding ECLs on off-balance sheet items)				
At 1 January 2023	**4**	**5**	**2**	**11**
Amounts charged/(released) to the income statement[1]	**(1)**	**1**	**—**	**—**
Provisions utilised	**(2)**	**(4)**	**—**	**(6)**
At 31 December 2023	**1**	**2**	**2**	**5**
ECLs on off-balance sheet items				
At 1 January 2023				**9**
Net writeback to income statement[2]				**(3)**
At 31 December 2023				**6**
Total provisions for liabilities and commitments				**11**

	AIB UK Group			
				2022
	Customer redress	Restructuring	Other provisions	Total
	£m	£m	£m	£m
Provisions (excluding ECLs on off-balance sheet items)				
At 1 January 2022	2	17	4	23
Amounts charged/(released) to the income statement[1]	2	2	(2)	2
Provisions utilised	—	(14)	—	(14)
At 31 December 2022	4	5	2	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

[1] Included in note 10: Operating expenses and note 3: Interest and similar income.
[2] Included in 'Net credit impairment writeback/(charge)' (note 12).

	AIB UK			
	2022			
	Customer redress	Restructuring	Other provisions	Total
	£m	£m	£m	£m
Provisions (excluding ECLs on off-balance sheet items)				
At 1 January 2022	1	17	4	22
Amounts charged/(released) to the income statement	3	2	(2)	3
Provisions utilised	—	(14)	—	(14)
At 31 December 2022	4	5	2	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

Provisions
A number of customer redress claims were resolved in 2023. The provision for restructuring, reduced reflecting voluntary severance payments and property exit costs following the exit from the GB SME market over the last two years. Other provisions includes provision for litigation cases and property dilapidations, primarily in relation to one building due to be exited from in 2024.

Provisions are reviewed by management regularly and updated for changes to estimates and judgements. The remaining provision of £5m at 31 December 2023 is expected to be utilised over the next three years.

ECLs on off-balance sheet items
The ECL allowance on loan commitments and on financial guarantee contracts are presented as a provision in the balance sheet (i.e. as a liability under IFRS 9 *Financial Instruments)* and separate from the ECL allowance on financial assets. For details of the internal credit ratings of contingent liabilities and commitments see note 20 (i).

33. Subordinated liabilities and other capital instruments

	AIB UK Group & AIB UK	
	2023	2022
	£m	£m
Issued by AIB UK		
£140 million Subordinated Tier 2 note due 2033, callable 2028	**141**	—
	141	—

On 24 November 2023, AIB UK issued £140m Subordinated Tier 2 Notes due 2033, callable 2028 which are fully held by AIB plc.

These notes mature on 24 November 2033 but may be redeemed in whole, but not in part, at the option of AIB UK Group on the optional redemption dates between 24 November 2028 and 24 May 2029, and on any interest payment date thereafter. In addition, the notes are redeemable at the option of AIB UK for certain regulatory or tax reasons, subject to prior regulatory approval.

The loan bears interest on the outstanding nominal amount at a rate of SONIA plus a margin of 325bps, payable half-yearly in arrears.

34. Share capital

	AIB UK Group & AIB UK			
	2023		2022	
	Number of shares m	£m	Number of shares m	£m
Issued and fully paid:				
Ordinary shares of £1 each	—	—	2,384	2,384
Ordinary shares of £0.25 each	1,828	457	—	—

Movements in issued share capital
The following table shows the movement in the number of ordinary shares:

	AIB UK Group & AIB UK			
	2023		2022	
	Number of shares m	£m	Number of shares m	£m
At 1 January	2,384	2,384	2,384	2,384
Capital reduction	—	(1,788)	—	—
Repurchase of shares	(556)	(139)	—	—
At 31 December	1,828	457	2,384	2,384

AIB UK has one class of ordinary shares which carry no right to income, other than when a dividend is approved.

Capital reduction
On 24 February 2023, the High Court of Justice in Northern Ireland approved a reduction in the capital of AIB Group (UK) p.l.c., from £2,384 million to £596 million. The capital reduction involved the cancellation and extinguishing of £0.75 on each issued fully paid up ordinary share of £1 each, reducing the nominal value of each issued fully paid up ordinary share from £1 to £0.25 and took effect from 1 March 2023.

Share buyback
On 24 November 2023, AIB UK completed a buyback of shares from its parent company, (AIB plc) which resulted in the repurchase of 555,555,555 £0.25 ordinary shares at a price of £0.45 per share for an aggregate consideration amount of £250m. The aggregate nominal amount of £139m was transferred from share capital to a capital redemption reserve. The number of ordinary shares in issue at 31 December 2023 was 1,828,444,445 (31 December 2022: 2,384,000,000).

Other reserves
The following table shows the movement on other reserves:

	AIB UK Group		AIB UK	
	2023	2022	2023	2022
Revaluation reserves	£m	£m	£m	£m
At 1 January	1	2	1	1
Other movement	—	(1)	—	—
At 31 December	1	1	1	1

35. Other equity interests

	AIB UK Group & AIB UK	
	2023	2022
	£m	£m
Issued by AIB UK		
£110m Additional Tier 1 securities issued 2023	**110**	—
	110	—

In 2023, AIB UK issued £110m nominal value of Additional Tier 1 perpetual securities which are fully held by AIB plc.

Interest on the securities, at a fixed rate of 9.89% per annum, is payable annually in arrears on 24 November, with the first interest payment due on 24 November 2024. On the first reset date (24 November 2029), in the event that the securities have not been redeemed, interest will be reset to the relevant 5 year fixed rate plus a margin of 568 bps per annum. The interest payment is fully discretionary and non-cumulative and conditional upon AIB UK being solvent at the time of payment, having sufficient distributable reserves and not being required by the regulatory authorities to cancel an interest payment.

The securities are perpetual securities with no fixed redemption date. AIB UK may, in its sole and absolute discretion, subject to regulatory approval, redeem all (but not some only) of the securities on any day falling in the period commencing on (and including) 24 November 2028 and ending on (and including) the first reset date or on any interest payment date thereafter at the prevailing principal amount together with accrued but unpaid interest. In addition, the securities are redeemable at the option of AIB UK for certain regulatory or tax reasons, subject to prior regulatory approval.

36. Capital redemption reserves

	AIB UK Group & AIB UK	
	2023	2022
	£m	£m
At 1 January	**—**	—
Transfer from ordinary share capital (note 34)	**139**	—
At 31 December	**139**	—

37. Analysis of movements in other comprehensive income

	AIB UK Group & AIB UK					
			2023			2022
	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	**77**	**(21)**	**56**	13	(4)	9
Change in fair value recognised in other comprehensive income	**24**	**(7)**	**17**	(268)	74	(194)
Total	**101**	**(28)**	**73**	(255)	70	(185)
Retained earnings						
Remeasurement of defined benefit asset/(liability)	**(4)**	**2**	**(2)**	(105)	37	(68)
Total	**(4)**	**2**	**(2)**	(105)	37	(68)
Other comprehensive income	**97**	**(26)**	**71**	(360)	107	(253)

38. 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	
	2023	2022
	Contract amount	Contract amount
	£m	£m
Contingent liabilities[1] - credited related		
Guarantees and irrevocable letters of credit	**69**	62
Other contingent liabilities	**2**	2
	71	64
Commitments[2]		
Documentary credits and short-term trade related transactions	**47**	35
Undrawn credit facilities		
- Less than one year	**571**	648
- One year and over	**1,592**	1,574
	2,210	2,257
	2,281	2,321

(1)Contingent liabilities are off-balance sheet products and include guarantees, irrevocable letters of credit and other contingent liability products.
(2)A commitment is an off-balance sheet product, where there is an agreement to provide an undrawn credit facility.

For details of the internal credit ratings of contingent liabilities and commitments, see note 20, section (i) and (j).

Provisions for ECLs on loan commitments and financial guarantee contracts are set out in note 32.

39. 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 1.1 and financial liabilities in note 1.11 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 2023 and 2022.

				AIB UK Group
				2023
	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	—	—	3,229 [1]	3,229
Derivative financial instruments	141	45	—	186
Loans and advances to banks	—	—	502	502
Loans and advances to customers	—	—	5,647	5,647
Investment securities	73	—	—	73
Other financial assets	—	—	13	13
	214	45	9,391	9,650
Financial liabilities				
Deposits by central banks and banks	—	—	354	354
Customer accounts	—	—	7,118	7,118
Derivative financial instruments	143	233	—	376
Other financial liabilities	—	—	78	78
	143	233	7,691	8,067

[1] Includes cash on hand of £37m.

All amounts are the same for AIB UK, with the exception of customer accounts which is £7,121m in AIB UK (see note 29).

	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 29).

40. 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 1.13.

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.

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.

Notes to the financial statements

Readers of these financial statements are advised to use caution when using the data in the following tables to evaluate AIB UK Group's financial position or to make comparisons with other institutions. Fair value information is not provided for items that do not meet the definition of a financial instrument.

The methods used for calculation of fair value in the year to 31 December 2023 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 smaller exposures where security valuations are not individually assessed, an LGD of 60% is applied (2022: 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.

Where XVA valuation adjustments have been applied to a derivative instrument, the entire instrument is classified as Level 3 in the fair value hierarchy where a not insignificant component of the XVA valuation is derived from unobservable inputs.

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 discounted cash flow valuation of the underlying trading entity (2022: net asset valuation). 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 and applying applicable market rates as appropriate.

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.

A key assumption for determining the fair value of 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.

Deposits by central banks and banks and customer accounts

The fair value of current accounts and deposit liabilities which are repayable on demand, or which re-price frequently, approximates to their book value. The fair value of all other deposits and other borrowings is estimated using discounted cash flows applying either market rates, where applicable, or interest rates currently offered by AIB UK Group.

Subordinated liabilities

The estimated fair value of subordinated liabilities and other capital instruments is based on quoted prices where available, or where these are unavailable, are estimated using valuation techniques using observable market data for similar instruments. Where there is no market data for a directly comparable instrument, management judgement, on an appropriate credit spread to similar or related instruments with market data available, is used within the valuation technique. This is supported by cross-referencing other similar or related instruments.

Other financial assets and other financial liabilities

This caption includes accrued interest receivable and payable and other receivables (including amounts awaiting settlement and accounts payable). The carrying amount is considered representative of fair value.

Commitments pertaining to credit-related instruments

Details of the various credit-related commitments and other off-balance sheet financial guarantees entered into by AIB UK Group are included in note 38: Contingent liabilities and commitments. The ECL is considered a reasonable approximation of the fair value of these credit-related financial instruments.

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 2023 and 2022:

					AIB UK Group
					2023
	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	186	—	163	23	186
Equity investment securities at FVTPL	73	—	—	73	73
	259	—	163	96	259
Financial assets not measured at fair value					
Cash and balances at central banks	3,229	37	3,192		3,229
Loans and advances to banks	502	—	225	277	502
Loans and advances to customers	5,647	—	—	5,634	5,634
Other financial assets	13	—	—	13	13
	9,391	37	3,417	5,924	9,378
Financial liabilities measured at fair value					
Derivative financial instruments	376	—	259	117	376
	376	—	259	117	376
Financial liabilities not measured at fair value					
Deposits by central banks and banks	354	—	250	102	352
Customer accounts	7,118	—	—	7,115	7,115
Subordinated liabilities and other capital instruments	141	—	—	141	141
Other financial liabilities	78	—	—	78	78
Loan commitments and financial guarantees	6	—	—	6	6
	7,697	—	250	7,442	7,692

	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
Loan commitments and financial guarantees	9	—	—	9	9
	8,683	—	250	8,432	8,682

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 2023 and 2022.

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
					2023
	Financial assets			Financial liabilities	
	Derivatives	Investment securities Equities at FVTPL	Total	Derivatives	Total
	£m	£m	£m	£m	£m
At 1 January 2022	8	50	58	156	156
Transfers into/out of level 3[1]	—	—	—	—	—
Total gains or losses in:					
Profit or loss:					
Net trading income	15	—	15	(39)	(39)
Net change in FVTPL	—	23	23	—	—
At 31 December 2023	23	73	96	117	117

					AIB UK Group
					2022
	Financial assets			Financial liabilities	
	Derivatives	Investment securities Equities at FVTPL	Total	Derivatives	Total
	£m	£m	£m	£m	£m
At 1 January 2021	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

[1]Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

Notes to the financial statements

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 2023 £m	Fair value 31 December 2022 £m	Valuation technique		Significant unobservable input	Range of estimates 31 December 2023	Range of estimates 31 December 2022
Derivatives	Asset	**23**	8	CVA	(1)	LGD	**37% - 54%**	38% - 56%
	Liability	**117**	156				**(Base 44%)**	(Base 46%)
				CVA		PD	**0.3% - 2.0%**	0.5% - 2.9%
							(Base 0.7% 1 year PD)	(Base 1.0% 1 year PD)
				FVA	(1)	Funding spreads	**(0.1%) - 0.3%**	(0.1%) - 0.2%
Investment securities - equity	Asset	**73**	50	Expected market value - discounted cash flows		Discount rate	**11.3 %**	n/a
						Long term growth rate	**2.0 %**	n/a
				Expected market value - net asset value		Net asset value	**n/a**	€341m(2)

(1)The fair value measurement sensitivity to unobservable inputs at 31 December 2023 ranged from (i) negative £2m to positive £1m for CVA (31 December 2022: negative £2m to positive £1m) and (ii) negative £1 to positive £nil for FVA (31 December 2022: negative £nil to positive £nil).
(2)Total net asset value of which AIB UK has a 16.67% interest.

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 2023 and 2022:

	2023			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable £m	Unfavourable £m	Favourable £m	Unfavourable £m
Classes of financial assets				
Derivative financial instruments	**1**	**(2)**	**—**	**—**
Investment securities - equity	**15**	**(11)**	**—**	**—**
Total	**16**	**(13)**	**—**	**—**
Classes of financial liabilities				
Derivative financial instruments	**—**	**(2)**	**—**	**—**
Total	**—**	**(2)**	**—**	**—**

	2022			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable	Unfavourable	Favourable	Unfavourable
	£m	£m	£m	£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)	—	—

41. 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 2023 and 2022 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 included within the non-interest bearing caption. 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 dates. 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.

The fair value of derivative financial instruments is included within other assets and other liabilities as interest rate insensitive. However, some derivative instruments are derived from interest rate sensitive financial instruments, and are shown separately below.

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

										2023
	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										
Cash and balances at central banks	3,183	—	—	—	—	—	—	—	46	3,229
Loans and advances to banks	439	—	—	—	—	—	—	—	63	502
Loans and advances to customers	4,836	99	162	215	213	128	57	70	(133)	5,647
Investment securities	—	—	—	—	—	—	—	—	73	73
Other assets	—	—	—	—	—	—	—	—	518	518
Total assets	8,458	99	162	215	213	128	57	70	567	9,969
Liabilities										
Deposits by central banks and banks	320	2	4	6	5	4	3	10	—	354
Customer accounts	4,672	235	619	136	—	—	—	—	1,456	7,118
Subordinated liabilities and other capital instruments	141	—	—	—	—	—	—	—	—	141
Other liabilities	—	—	—	—	—	—	—	—	503	503
Equity	—	—	—	—	—	—	—	—	1,853	1,853
Total liabilities and equity	5,133	237	623	142	5	4	3	10	3,812	9,969
Derivative financial instruments affecting interest rate sensitivity	2,607	(140)	(602)	(210)	(57)	(133)	(194)	(1,271)	—	
Interest sensitivity gap	718	2	141	283	265	257	248	1,331	(3,245)	
Cumulative interest sensitivity gap	718	720	861	1,144	1,409	1,666	1,914	3,245	—	

	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	2022 Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets										
Cash and balances at central banks	3,871	—	—	—	—	—	—	—	53	3,924
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	—	—	—	—	—	—	—	—	628	628
Total assets	9,363	142	159	144	125	132	105	86	619	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
Equity	—	—	—	—	—	—	—	—	1,654	1,654
Total liabilities and 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	980	70	166	266	264	242	250	1,273	(3,511)	
Cumulative interest sensitivity gap	980	1,050	1,216	1,482	1,746	1,988	2,238	3,511	—	

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	2023 £m	2022 £m
+ 100 basis point parallel move in all interest rates	**32**	39
- 100 basis point parallel move in all interest rates	**(32)**	(39)

Notes to the financial statements

42. Statement of cash flows - additional information

Non-cash items included in profit/ (loss) before taxation

	AIB UK Group		AIB UK	
	2023	2022	2023	2022
	£m	£m	£m	£m
Credit impairment charge/(writeback) before recoveries	(18)	43	(18)	43
Profit on disposal of property	—	(2)	—	(2)
Net gain on equity investments measured at FVTPL	(23)	(10)	(23)	(10)
Provision for liabilities and commitments	—	2	—	3
Depreciation, amortisation and impairment	10	13	10	13
Dividends received from subsidiary undertakings	—	—	(6)	(1)
Retirement benefits - defined benefit income	(1)	(1)	(1)	(1)
Change in prepayments and accrued income	3	3	3	3
Change in accruals and deferred income	1	3	—	3
(Profit)/loss on disposal of loans and advances to customers	(1)	16	(1)	16
Total non-cash items	(29)	67	(36)	67

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	
	2023	2022	2023	2022
	£m	£m	£m	£m
Cash and balances at central banks	3,229	3,924	3,229	3,924
Loans and advances to banks[1]	94	219	94	219
Deposits by central banks and banks	(66)	(86)	(66)	(86)
Cash and cash equivalents	3,257	4,057	3,257	4,057

[1]Excluding regulatory balances with the Bank of England and other banks.

Notes to the financial statements

43. Financial assets and liabilities by contractual residual maturity

The following table analyses financial assets and financial liabilities by contractual residual maturity at 31 December 2023 and 2022.

						2023
	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 assets						
Cash and balances at central banks	**3,229**	**—**	**—**	**—**	**—**	**3,229**
Derivative financial instruments[1]	**—**	**1**	**9**	**50**	**126**	**186**
Loans and advances to banks	**357**	**145**	**—**	**—**	**—**	**502**
Loans and advances to customers[2]	**147**	**164**	**501**	**3,012**	**1,956**	**5,780**
Other financial assets	**—**	**10**		**—**	**—**	**10**
	3,733	**320**	**510**	**3,062**	**2,082**	**9,707**
Financial liabilities						
Deposits by central banks and banks	**66**	**2**	**—**	**264**	**22**	**354**
Customer accounts	**5,582**	**767**	**629**	**139**	**1**	**7,118**
Derivative financial instruments[1]	**—**	**2**	**10**	**93**	**271**	**376**
Subordinated liabilities and other capital instruments	**—**	**—**	**—**	**—**	**141**	**141**
Other financial liabilities	**78**	**—**	**—**	**—**	**—**	**78**
	5,726	**771**	**639**	**496**	**435**	**8,067**

						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 assets						
Cash and balances at central banks	3,924	—	—	—	—	3,924
Derivative financial instruments[1]	—	3	9	80	128	220
Loans and advances to banks	341	214	—	—	—	555
Loans and advances to customers[2]	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[1]	—	6	10	119	371	506
Other financial liabilities	80	—	—	—	—	80
	7,136	620	508	515	401	9,180

[1]Shown by maturity date of contract.

[2]Shown gross of loss allowance on financial assets.

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.

44. Financial liabilities by undiscounted contractual maturity

The balances in the table below include the undiscounted cash flows relating to principal and interest on financial liabilities on the basis of their earliest possible contractual maturity and as such will not agree directly with the balances on the consolidated statement of financial position. 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 16), which are held for the purpose of covering unexpected cash outflows.

The following table analyses, on an undiscounted basis, financial liabilities by remaining contractual maturity at 31 December 2023 and 2022

						2023
	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	**66**	**2**	**1**	**288**	**24**	**381**
Customer accounts	**5,582**	**771**	**648**	**143**	**1**	**7,145**
Derivative financial instruments	**—**	**35**	**82**	**207**	**101**	**425**
Subordinated liabilities and other capital instruments	**—**	**—**	**8**	**34**	**184**	**226**
Other financial liabilities	**78**	**—**	**—**	**—**	**—**	**78**
	5,726	**808**	**739**	**672**	**310**	**8,255**

						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

Notes to the financial statements

The undiscounted cash flows potentially payable under guarantees and similar contracts

The undiscounted cash flows potentially payable under guarantees and similar contracts, included below within contingent liabilities, are classified on the basis of the earliest date the facilities can be called. AIB UK Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet their obligations. AIB UK Group expects that most guarantees it provides will expire unused.

AIB UK Group has given commitments to provide funds to customers under undrawn facilities. The undiscounted cash flows have been classified on the basis of the earliest date that the facility can be drawn. AIB UK Group does not expect all facilities to be drawn, and some may lapse before drawdown. For further details see note 38: Contingent liabilities and commitments.

The following table analyses undiscounted cash flows potentially payable under guarantees and similar contracts at 31 December 2023 and 2022:

						2023
	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**
Contingent liabilities	**71**	**—**	**—**	**—**	**—**	**71**
Commitments	**2,210**	**—**	**—**	**—**	**—**	**2,210**
	2,281	**—**	**—**	**—**	**—**	**2,281**

						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
Contingent liabilities	64	—	—	—	—	64
Commitments	2,257	—	—	—	—	2,257
	2,321	—	—	—	—	2,321

45. 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:

	2023			2022		
	Number of persons	**Number of loans**	**Balance at year end £m**	Number of persons	Number of loans	Balance at year end £m
Key management personnel	**3**	**7**	**0.4**	2	5	0.4

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 2023 and 2022. Repayments on loans to KMP during the year amounted to £0.2m (2022: £0.1m) and drawdowns were £0.0m (2022: £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		**Of which: Directors**		**Highest paid Director**	
	2023 £m	2022 £m	**2023 £m**	2022 £m	2023 £m	2022 £m
Salary and other short term benefits	**3.0**	2.8	**1.3**	1.2	0.3	0.3
Post-employment benefits	**0.3**	0.2	**0.2**	0.1	0.2	0.0
Termination benefits	**0.1**	—	**—**	—	—	—
Total	**3.4**	3.0	**1.5**	1.3	0.5	0.3

In 2023, there were 22 KMP for all or part of the year (2022: 21). 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 (2022: 3) of which the accrued pension amount for the highest paid member at the end of the year was £0.2m (2022: £nil).

Termination benefits relate to severance payments made to KMP. Payments made during 2023 amounted to £0.1m (2022: £nil).

No payments to former Directors were made during the year (2022: £nil).

No share options were granted or exercised during 2023 (2022: 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 2023 (2022: nil). There were no long-term incentive schemes in operation during the year (2022: 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.

(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 22. 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:

	2023	2022
	£m	£m
Statement of financial position		
Deposits	**3**	9

(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:

	2023		2022	
	AIB plc	**Fellow subsidiaries**	AIB plc	Fellow subsidiaries
	£m	**£m**	£m	£m
Statement of financial position				
Loans and advances	**201**	**11**	232	13
Deposits	**(101)**	**(4)**	(138)	(13)
Derivative financial instruments (assets)	**162**	**—**	206	—
Derivative financial instruments (liabilities)	**(259)**	**—**	(349)	—
Subordinated liabilities and other capital instruments	**(141)**	**—**	—	—
Income statement				
Interest income	**(90)**	**—**	(14)	—
Interest expense	**16**	**—**	1	—
Net fee and commission income	**—**	**3**	—	3
Trading and other income/(expense)	**(17)**	**—**	188	—
Operating expenses	**(29)**	**—**	(30)	—

In 2023, there were no transactions between AIB UK Group and the ultimate parent company, AIB Group plc (2022: £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 2023, AIB UK Group recognised £0.1m (2022: £0.1m) fair value amortisation income on these loans.

(g) Transactions with key management personnel

Connected persons

The aggregate of loans to connected persons of KMP are as follows (aggregate of 6 persons; 2022: 4):

	2023	2022
	£'000	£'000
Loans	**228**	2
Total	**228**	2

The total interest received on these loans in 2023 was £0.9k (2022: £nil).

The loans are made on normal commercial terms, and a total expected credit loss allowance of under £3,000 was held on the above facilities at 31 December 2023 and 2022.

46. Dividends

No dividends were paid during 2023 and 2022.

Final dividends are not accounted for until they have been approved at the Annual General Meeting of shareholders.

47. Events after the reporting period

There have been no significant events affecting AIB UK Group or AIB UK since the reporting date which require amendment to, or disclosure in, the financial statements.

48. 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 financial statements 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 Group	AIB Group plc
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
Amortised cost	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.
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.
AT1	Additional Tier 1 Capital ('AT1') are securities issued by AIB UK and included in its capital base as fully CRD IV compliant additional tier 1 capital on a fully loaded basis.
b	Billions
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.
C&E	Climate and Environmental
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 include 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. Also credit impaired are POCI financial assets which are credit-impaired on initial recognition.
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 of a loan or other financial asset based on changes in its expected credit loss either over a 12-month period or its lifetime.
EE	Expected exposure
EPC	Energy Performance Rating
EPE	Expected positive exposure
ERU	Economic Research Unit
ESG	Environmental, social and governance
EU	European Union
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.
Gross carrying amount	The gross carrying amount of a financial asset is the amortised cost before adjusting for any loss allowance.
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').
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.
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').
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.
Loans past due	When a borrower fails to make a contractually due payment, a loan is deemed to be past due. 'Past due days' is a term used to describe the cumulative number of days that a missed payment is overdue. Past due days commence from the close of business on the day on which a payment is due but not received. In the case of overdrafts, past due days are counted once a borrower: • has breached an advised limit; • has been advised of a limit lower than the then current amount outstanding; or • has drawn credit without authorisation. When a borrower is past due, the entire exposure is reported as past due, rather than the amount of any excess or arrears.
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
NSFR	Net Stable Funding Ratio ('NSFR'): The ratio of available stable funding to required stable funding over a 1 year time horizon.
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 LLP
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.
RMF	Risk Management Framework
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.
SBTs	Science Based Targets
SCA	Strong Customer Authentication
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
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, other than POCIs 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.
Subordinated liabilities	Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.
TCFD	Taskforce on Climate-related Financial Disclosures
TDRC	Technology Data & Resilience Committee
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.
Tier 2	Subordinated Tier 2
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