AIB Group (UK) p.l.c.

Annual Financial Report

for the year ended 31 December 2021

Company number: NI018800

Contents

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

How we've done

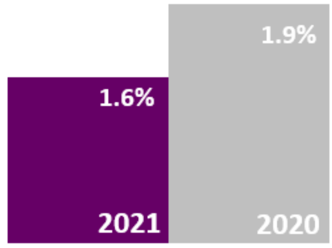
2021 performance results

Financial performance

Net interest margin[(1)]

1.6%

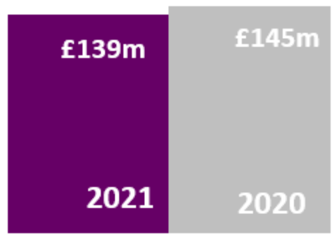
Low interest rate environment
Reduced customer loan yields and returns on advances to banks in line with market rates partially offset by decrease in interest expense.



Total adjusted costs[(2)]

£139m

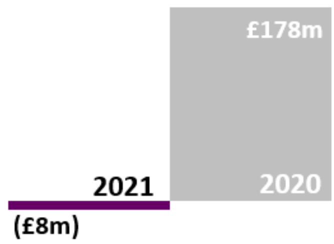
Statutory operating expenses £160m (including restructuring costs) (2020: £189m)
Continued focus on cost management
Cost reduction as a result of lower branch footprint across the UK, property exits in 2021 and decrease in average employee numbers.



Net credit impairment writeback

(£8m)

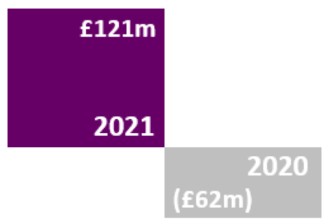
Improving macroeconomic outlook
Impairment writeback of £8m due to an improved macroeconomic outlook following the easing of COVID-19 restrictions.



Adjusted profit before tax[(2)]

£121m

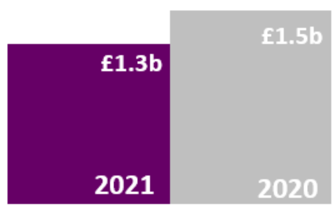
Statutory profit before tax £89m (2020: £105m loss)
Profit before tax £121m following lower costs and an impairment write back of £8m due to an improved macro economic outlook.



New lending[(1)]

£1.3b

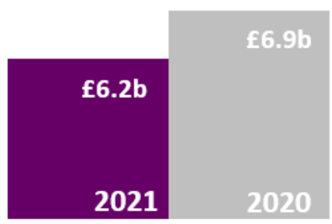
Playing our role in aiding the economic recovery by continuing lending
Sustainability remained a key focus with strides made within the Energy sector. However reduced lending, in key sectors classified as high risk, due to the pandemic.



Net loans

£6.2b

9% decrease in net loans
Lower net loans as result of a sale of GB SME loans, restricted lending in sectors impacted by COVID-19 and non-performing loan workouts. Gross loans down 10%.

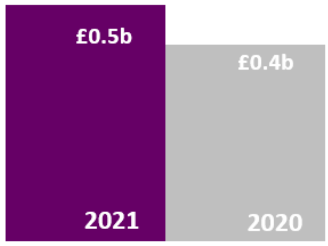


Non-performing loans[1]

£0.5b

8% of gross loans

Increase in non-performing loans due to economic environment. A dedicated specialist team managed cases deemed vulnerable to the continuation of the COVID-19 crisis in 2021.



Customer accounts

£10.1b

Customer balances remained flat following continued restrictions

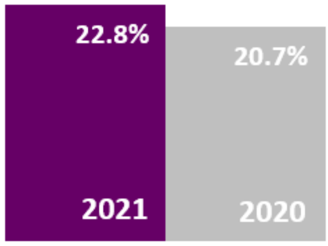
Customer account balances marginally increasing as result of low discretionary spending in 2021.

CET1 ratio[3]

22.8%

Strong capital base

A measure of our ability to withstand financial stress, also optimised changes in regulatory capital requirements.



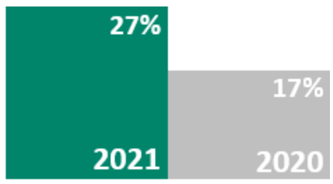
Non-financial performance

Green mortgages

27%

Lending to support AIB UK's transition to a low carbon economy

AIB UK achieved £275m of green lending in 2021 with 27% of new AIB UK mortgages being Green Mortgages.

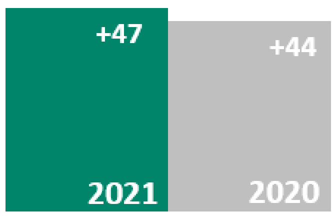


Net promoter score (AIB NI Retail)

+47

+3 increase in the average NPS in 2021

Customers have fed back that they feel valued, our people are helpful and friendly and that the loan application process is straightforward and quick.

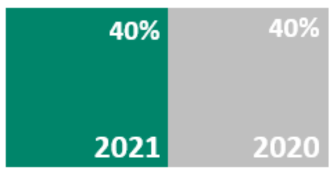


Diversity

40%

Women as a % of management

We remain committed to and focused on accelerating the inclusion and diversity agenda.



[1] These measures are considered Alternative Performance Measures ('APMs') as they are not statutory measures but, when considered together with statutory results, provide additional information to users of these financial statements. Further information on APMs is included on page 22.

[2] Further information on the calculation of these adjusted measures, which we consider to be APMs, is included on page 22. Page 12 shows a reconciliation to the statutory results.

[3] The Common Equity Tier 1 ('CET1') ratio for 2021 includes add-backs for COVID-19 reliefs. When these reliefs are excluded, the CET1 ratio at 31 December 2021 reduces from 22.8% to 22.0%.

At a glance

How we back our customers

Our business structure in 2021

We back our customers as a UK specialist bank. In Great Britain ('GB'), we concentrate on servicing corporate customers. In Northern Ireland ('NI'), we offer retail, corporate and business banking services.

Following an in depth review of our performance, we took the decision in 2020 to exit the GB small and medium sized entity ('SME') market and to reduce our branch footprint in Northern Ireland. We recognise these decisions resulted in significant challenges for our customers along with the ongoing COVID-19 pandemic.

We helped them respond to these challenges through a clear customer communication programme and by offering dedicated colleagues to respond to customer queries both in person and by telephone whilst continuing to offer a range of supports such as payment breaks and government backed loans.

424k
CUSTOMERS

424k retail, business and corporate customers across the United Kingdom

12
LOCATIONS

Offices in London, Manchester and Northampton in Great Britain. 7 branches in Northern Ireland, with business centres co-located in branches and 1 centre for small and micro business housed within Head Office.

133k
DIGITAL CUSTOMERS

133k customers actively engaging across our digital channels

ALLIED IRISH BANK (GB)

AIB GB is a corporate focused bank with locations in London, Manchester and Northampton.

We strive for recognised expertise in our chosen sectors, targeting mid-tier corporates who value a high-touch relationship model.

Banking services include lending, treasury, trade facilities, asset finance, and invoice discounting.

AIB (NI)

Our business in Northern Ireland operates as **AIB NI**.

Personal products include mortgages, personal loans, credit cards, current accounts and savings. Customers can engage with us via mobile, online, post office or traditional channels.

Business banking services include finance and loans, business current accounts, credit cards, payment solutions and savings.

UK FINANCIAL SOLUTIONS GROUP ('FSG')

UK FSG assists customers in difficulty, looking to rehabilitate them back to financial health where feasible, while optimising the recovery for the Bank.

Our people in 2021

Our people

715 Employees (FTE)
Direct & Indirect

54% Female

46% Male

Management

217 Employees (FTE)
Direct & Indirect

40% Female

60% Male

Chair's statement

"We have made significant headway on our strategy in 2021 and we look to continue this progress over the next year."

Peter Spratt

Introduction

We went into 2021 with an optimistic outlook, spurred on by a potential pathway out of the COVID-19 pandemic through the rollout of the vaccine programme. While that pathway has not been as straight forward as we would have hoped, and we continue to live with the ongoing social and economic impacts of COVID-19, we are significantly more prepared to face the challenges presented now than at the outset of the pandemic.

The safety of our customers and colleagues remains our highest priority. Nevertheless, notwithstanding a level of risk to themselves, our people have continued to demonstrate their dedication and commitment to meeting our customers' needs throughout the enduring challenges of the pandemic and I would like to thank all our colleagues for their role in maintaining the Bank's ability to support our customers. We were able to welcome colleagues back into our branches and offices in September for a few months, being the first time in 18 months for many. This was a big step forward in our battle against the impacts of COVID-19 and enabled a return to some form of normality. It is noteworthy that a number of our people continued to work in our branches and offices throughout the pandemic, keeping essential services running for our customers, and I would like to acknowledge those colleagues specifically. Despite the progress made against the pandemic, the restrictions announced towards the end of the year, in response to the Omicron variant, reminded us that we still need to be cautious in our approach.

Financial performance and business strategy

At the start of 2021 we embarked upon the first of three years in our new strategic goal of reshaping the Bank to enable us to become the long term sustainable bank we believe will meet our customers' needs. By the end of 2021 we had made significant progress along this journey both in Great Britain and in Northern Ireland.

Withdrawal from the GB SME market by the end of 2021 was a key part of our strategy. To this end we entered into a legal agreement with Allica Bank for the sale of a portfolio of GB SME loans in November. The sale will happen in two stages, with the second stage awaiting regulatory approval, and completion of the sale expected in 2022. We believe Allica's core values are closely aligned with our own, which was a key factor in our deciding to contract with them as supporting our customers through this transition is a priority. We will continue to work hard for our customers to ensure a smooth transition as their accounts migrate to Allica Bank, on a phased basis, during 2022.

We also implemented our new target operating model in UK Corporate Banking, which we believe will transform the way we do business and will provide our customers with the most effective service possible. We believe our strong culture and how we interact with customers will be a differentiator of us from other banks and gives us the base from which to achieve our growth plans.

In Northern Ireland our strategy is to evolve to be the bank of choice for SMEs and mortgage customers. To achieve this, we recognise the need to improve our digital experience to our customers including developing a remote account opening solution. During the year we also reviewed the role and scale of our physical distribution channel and compared that to the banking landscape our customers trending habits suggest is needed for the future. This resulted in our taking the difficult decision to close eight branches in NI, having considered the ongoing needs of our customers, including from a conduct perspective. I would like to thank the branch teams involved in their management of this transition and for the support they have provided our customers to adapt to new ways of banking.

Sustainability remains a key priority on the Bank's agenda and in 2021 AIB UK completed £275m in green lending. We also introduced various customer initiatives to reduce the volume of paper statements being issued. Making changes to the way we operate together with the growing range of green products we are offering our customers is crucial in developing our strategic pillar of Sustainable communities.

Having taken significant expected credit losses in 2020, due to the economic impact anticipated from the COVID-19 pandemic, the Bank saw a more optimistic economic outlook reflected in 2021 as it returned to profit once again and was able to write back some of those expected losses. AIB UK Group recorded a statutory profit before taxation of £89m for 2021 and an adjusted profit before taxation[1] of £121m. We continue to hold a strong capital position from the strengthening of the Bank having taken place in previous years.

Customers and colleagues

With the pandemic ongoing and new variants emerging, it has been of utmost importance to maintain the procedures established throughout the branch network that have enabled us to keep branches open.

We continue to hold our customers' needs at the forefront of what we do and have looked to support them through the changes that have been implemented in 2021. By way of example, we have been engaging with customers and supporting them as they make the move from Interbank Offered Rates ('IBORs') to Alternative Reference Rates ('ARRs') in accordance with the implementation of regulatory requirements. These requirements saw the London Interbank Offered Rate ('LIBOR') no longer being available for use as a benchmark after 31 December 2021. Hence we have worked hard to assist customers to amend their contracts to comply with the new regulations.

We have also been proactive in communicating with our customers throughout 2021, keeping them informed of matters that affect them in their everyday lives, but which they may not all necessarily be aware of. A significant example of this is in the area of fraud, where fraud levels continue to increase in the UK. To support our customers, we embarked on a campaign to raise their awareness of potential scams and to advise them on how best to protect themselves.

The resilience of our people shone through again in 2021, as they continued to demonstrate remarkable adaptability in providing customers with the highest quality level of support in the face of the prolonged impacts of the COVID-19 pandemic. Such an extended period of turbulence has put extraordinary pressure on our colleagues, and I am extremely proud of, and grateful to them for their sustained diligence and commitment to providing for the needs of customers throughout the pandemic. We are conscious of the continued pressure this puts on our people and the need to be mindful of their ongoing wellbeing. We have therefore been keeping in touch with all our people through a series of check-in surveys throughout the year to obtain their feedback on how we are supporting them. We were pleased to find our colleagues responded that they felt supported, well communicated with and that the Bank has shown care for their wellbeing. One of the initiatives we implemented in 2021 was to provide our colleagues with a Digital Disconnect and Refresh Day, giving them time for reflection and to energise themselves for the journey ahead.

Our Gender Pay Gap Report for 2020 was published in 2021. It shows small signs of improvement, driven by the positive impacts of our gender balance programme, with the Gender Pay Gap reducing to 29.5% (2020: 30%). There is, however, more work for us to do in this area as we strive for a better balance in pay and participation across the Bank. We firmly believe that gender balanced organisations lead to better organisational outcomes and we are committed to achieving balance at all levels in the Bank.

Board of Directors

We welcomed a number of new members to the Board during 2021, increasing its level of experience and diversity: Helen Normoyle and Geraldine Casey joined the AIB UK Board, bringing with them valuable experience from their roles on the AIB Group plc Board of Directors and Executive Committee ('ExCo'), respectively. Helen has 30 years of experience in consumer marketing, including participating on the boards of a number of high profile companies across a range of sectors. Geraldine has extensive expertise in human resources and is the Chief People Officer for the Parent Group. We also welcomed William Fall and Joe Higgins on to the Board as independent directors, both of whom have strong backgrounds in financial services. William has had a long career both as a senior executive as well as in numerous non-executive positions across financial services, including investment, corporate and retail banking, as well as insurance. He also brings strong regulatory relationships and a wealth of experience of working on subsidiary boards for international parent companies. Joe joins the Board having previously held senior roles at a number of top tier UK banks.

Towards the end of 2021 Robert Mulhall indicated his intention to step down as Managing Director of AIB UK Group, and to leave the Parent Group, during 2022, following a career within the Parent Group spanning 25 years. He was appointed Managing Director of AIB UK Group in March 2020, at the very outset of the COVID-19 pandemic, and has steered the Bank and our people through a period beset with unprecedented social, economic and political impacts. He has been instrumental in developing, launching and implementing our new strategy and has shown great commitment and leadership in setting the Bank on its path to achieve our ambitious growth plans. I should like to thank Robert personally, and on behalf of the Board, for the energy and time he has given to the Bank as well as for his intellectual and people leadership.

Robert will be succeeded by Hilary Gormley, subject to regulatory approval, in early 2022. Hilary has worked in the Parent Group for over 30 years, which includes a number of years in UK Corporate Banking. Most recently, she was Head of Business Banking in AIB Capital Markets.

[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 22 of this report. A reconciliation to the statutory view of performance is included in the Financial review on page 12.

Tom Foley retired from the Board during 2021 and I should also like to thank him for his exceptional service to the Board and the Bank over many years. His contribution helped retarget the Bank as it came out of the global financial crisis and to set it onto its current path. Cathy Bryce, also stepped down as Director due to taking up additional responsibilities within the Parent Group and we are grateful for her contribution to the Board during her tenure.

Anna Savage left the Bank and her position as Chief Financial Officer ('CFO') in mid 2021 and I thank her for her input to AIB UK, which formed part of a long career within the Parent Group. She was succeeded by Janet McConkey, who I am also pleased to welcome onto the AIB UK Board following her appointment as an Executive Director in 2022. Janet has over 20 years' experience working in the Parent Group, holding key roles in strategic and financial planning, management reporting and regulatory reporting. Most recently, she was the Head of Debt Investor Relations.

In March 2022 I will be moving on from AIB UK Group. It has been a privilege to have been Chair of the Bank for six years and I believe I leave it well placed to continue its strategic journey and to serve its customers in fulfilling their ambitions. William Fall will take up the role of Chair of the Bank on my leaving and I wish him every success with taking the Bank forward.

Outlook

We have made significant headway on our strategic journey in 2021 and we look to continue this progress over the next year. During 2022 we will continue transitioning customers to Allica Bank and will focus on winding down liabilities to complete our withdrawal from the GB SME market. We will also be working on further embedding our new operating model and targeting growth in our chosen markets and sectors.

It is clear the COVID-19 pandemic will have an enduring impact on society and the economy and we will persevere to ensure we are there to support our customers and our people throughout this time and beyond. In addition, it is not possible at this stage to predict how recent events in Ukraine might impact on the economy, the Bank, our customers or our people but we will monitor the situation as we continue to progress our strategy in 2022.

Peter Spratt
Chair

2 March 2022

Managing Director's review

"2021 has been a year of significant change in our business, focused on ensuring we create a more streamlined and sustainable platform to deliver business growth."

Robert Mulhall

Introduction

2021 saw a continuation of the unprecedented challenges to AIB UK, the banking industry and society as a whole with the COVID-19 pandemic significantly disrupting our business and way of life.

As we continue to deal with the improving situation as colleagues and customers pivot to their new normal, I am immensely proud of how AIB UK has responded to the crisis, with supporting our customers, maintaining our people's safety and safeguarding our business being the key priorities throughout.

2021 has been a year of significant change in our business, focused on ensuring we create a more streamlined and sustainable platform to deliver business growth as our customers grow on the back of Brexit and the pandemic.

As Managing Director I have been brilliantly supported by an energised and driven leadership team and I would also like to thank the AIB UK Board for their continued support throughout the year. I would also like to acknowledge the continued efforts of the people in AIB UK who drive for further improvements to deliver for our customers daily. We are well placed now to maximise the growth of the Corporate Bank in UK and to optimise the unique opportunities that exist for our Retail Bank in Northern Ireland.

Our financial performance in 2021 reflects the economic realities of an extremely difficult operating environment whilst at the same time implementing some major transitioning to a new business model which will see the business well positioned to grow into the future from a solid base.

The Bank's capital and liquidity positions remain very strong and are a testament to the prudent management of the business over recent years.

Going forward, I have announced that I am moving on and I will be leaving the Parent Group during 2022. I remain committed to driving forward the growth agenda of the strategy and effecting a strong handover to my successor, Hilary Gormley, subject to regulatory approval during the first half of 2022.

Hilary has over 30 years' experience in the Parent Group and comes to the UK with a wealth of knowledge across corporate, commercial and retail banking. Her extensive experience and drive to add value for our customers will make her a great asset and leader for the UK business.

Economic factors

Following a sharp decline of nearly 10% in UK Gross Domestic Product ('GDP') in 2020, there was a further contraction in the first quarter of 2021 owing to another 'lockdown'. The economy staged a strong rebound in the second quarter, growing by 5.5%. This was on the back of a rapid rollout of COVID-19 vaccines, allowing the economy to re-open.

However, data for the second half of 2021 showed that the pace of growth slowed amid supply bottlenecks and headwinds posed by the Delta and Omicron variants. Overall, the economy grew by 7.5% in 2021. Inflation picked up sharply in 2021 and is forecast by the Bank of England to peak at around 7.25% in April 2022. In terms of the labour market, the economy had fully reopened prior to the furlough scheme ending in September and this should help to mitigate some of the potential upward pressure on the unemployment rate, which currently stands at 4.1%.

Meanwhile, with inflation rising sharply, the Bank of England raised interest rates in December 2021 and February 2022, from their historic low of 0.1%. to 0.5%. Markets are pricing in that rates will get to 2% by the end of 2022, 2.25% by the first quarter of 2023 and levelling off after that.

The crisis in Ukraine adds uncertainty to the economic outlook and we will monitor the situation as it develops.

Customer first

2021 has undoubtedly continued to be a very challenging year for many of our customers and as a bank it challenged us to truly live our values and deliver on our purpose.

Over the course of the year we continued to deliver significant customer supports (including payment holidays, interest only options and relaxation of covenants) in response to the pandemic. We provided £402m extra funding to existing customers via the UK Government backed Coronavirus Large Business Interruption Loan Scheme ('CLBILS'), Coronavirus Business Interruption Loan Scheme ('CBILS') and Bounce Back Loan Scheme ('BBLS') and launched the Recovery Loan Scheme. The decision to provide this support only to existing customers has allowed AIB UK to have a very low number of fraud instances with the BBLS product in particular. These were in addition to other initiatives including maintaining priority banking hours in our branches for our older and vulnerable customers and introducing dedicated colleagues to help with support regarding branch closures.

"2021 has continued to be a very challenging year for many of our customers and as a bank it challenged us to truly live our values"

In addition to the continuing challenges caused by the global pandemic, we have been supporting our customers through significant change as we work through the impacts of our exit of the GB SME market and reduced branch footfall in Northern Ireland. Whilst the scale of change and customer impact is challenging, our average AIB NI Retail Net Promoter Score ('NPS') has increased to +47, reflecting the ongoing support we are providing to help our customers through the changing landscape.

We have launched our new operating model which is centred on delivering for our customers in a streamlined and cost-efficient manner. Whilst this will take time to fully embed, we look forward to improving our customer journey times and experience.

AIB UK continues to be recognised as a leading lender in the GB healthcare sector and was nominated for two awards in 2021. Our sector head was also nominated for the 2021 HealthInvestor UK Power Fifty Award for Leading Capital Provider in the sector.

In October, AIB UK's Rosie Lyon won the 2021 UK Chartered Banker Institute's Global Young Banker of the Year competition for her proposal to create a fairer financial future for victims/survivors of domestic violence.

Simple & efficient

Throughout 2021 the remote working customer and operational solutions implemented in 2020 have continued to embed and enabled productivity levels to remain high. Continued focus on adherence to standardised end-to-end procedures had seen rework levels showing an incremental improvement during the year but have come under pressure late in the fourth quarter of 2021 as the impact of execution of the UK strategy impacted staffing and case handovers combined with high deal volumes. Addressing this is a priority for early 2022.

In relation to the significant strategy shift in 2021, customer and efficiency-centric Lean design principles were embedded from the start in the new Target Operating Model ('TOM') design work for Corporate Banking and NI, to incorporate efficiency, effectiveness and clarity of role demarcation on a top-down basis. This was followed through in the implementation phases with the establishment of a critical Design Authority forum, reviewing and challenging all new and redesigned processes required by the TOM in line with those principles, seeking to maximise opportunity for simplification, unnecessary work elimination, reduced hand-offs and confirmation of and reliance on strong key controls. The strategy changes have enabled us to elevate the focus and dialogue on simplicity and efficiency to this higher operating model level, underpinning the cost-efficiency of the model going forward.

Risk & capital

In light of the economic shock experienced by the UK in 2020, we exercised a necessary level of caution and tightened our risk appetite for certain sectors of the economy which continued by and large into 2021. Nevertheless, the Bank remains in a strong position to withstand a similar shock, including the impact on Expected Credit Loss ('ECL') provisions, with a CET1 ratio of 22.8% after 21 months of impact to the economy.

Furthermore, our stress test modelling indicates that even in situations of significant economic turbulence, we will continue to exceed regulatory capital requirements.

Talent & culture

During 2021 we have continued to learn to adapt to balancing home and work life. The first half of the year saw further lockdowns and restrictions meaning that up to 80% of our colleagues continued to work from home, while our front line colleagues continued to support customers by keeping our branches open or attending offices. Our primary focus of maintaining the health and safety of our colleagues, customers and communities remained as paramount. Although there have been some operational challenges, we have continued to focus on the equally important impacts on culture, wellbeing and morale of our colleagues.

Our values

Be one team

Own the outcome

Drive progress

Show respect

Eliminate complexity

The resilience of our colleagues during 2021 has once again been inspiring. This year, our colleagues have had to undergo an immense level of change as we pivot our business in line with our new strategy. This means that our colleagues have had to cope with uncertainty relating to organisational change as well as the continued challenges of COVID-19. The professionalism show by those impacted by change, the laser focus attention on our customers and how our colleagues have lived our values (be one team, own the outcome, drive progress, show respect and eliminate complexity) on a daily basis has been outstanding. For that, I want to say thank you to each and every one of our colleagues.

As we look forward to 2022 and to driving growth, our talent and culture will be a key focus, especially in a market where the war for talent and skills is tight. Attracting new talent from diverse backgrounds, through initiatives like our apprentice programme whilst growing our own talent through sponsorship and mentorship, will be critical. Backing our people has never been more important and we will continue supporting them to realise their potential.

Our Gender Balance Programme strives for better balance in pay, participation and promotions across our organisation, and for better business. While we in AIB UK have come a long way, with females representing 40% of management, we have more to do. We will be doing more on our Gender Balance Programme (from "Roots to Boardroom") and are committed to achieving and sustaining balance at all our levels. All genders are key in our programme, as we seek to balance all activities across the organisation. We are guided by our firm belief that gender balanced organisations lead to better organisational outcomes with better investor value and returns.

In 2017, we signed up to the HM Treasury Women in Finance Charter, which aims to build a more gender balanced workplace. We set a goal to achieve 50% female managers by the end of 2020. We have made a lot of progress, but did not reach our target due to a number of factors, not least the impact of Covid. We remain committed to and focused on accelerating the inclusion and diversity agenda with a suite of measures and initiatives in place to ensure gender balance.

Our Gender Pay Gap has reduced again to 29.5%. We currently have a higher number of females in lower, lower middle and upper middle pay bands with higher numbers of males within our upper quartile pay band. We are confident that men and women are paid equally for doing equivalent jobs. As our Gender Balance Programme matures further, we believe this will impact positively on our gender pay gap.

Sustainability

In AIB UK we are committed to backing sustainable communities and to making a positive contribution to society. At the Parent Group level our ambition is to operate as carbon neutral using a 'net zero' approach (cutting greenhouse gas emissions to as close to zero as possible - through elimination of carbon rather than offsetting it) and for green/transition lending to account for 70% of our new customer lending by 2030.

AIB UK will play a key role in achieving those targets and we have already made significant progress. In 2021 AIB UK achieved £275m of Green Lending, and 27% of UK mortgages were Green Mortgages.

AIB UK is part of a multi-year Parent Group Sustainability Regulatory Programme to identify, quantify and manage the risks arising from the financial risks of climate change.

Regulatory and other evolving issues

We continue to navigate a complex and demanding regulatory landscape. Throughout the year we responded to our regulators' expectations on issues such as interest rate reductions, progressing the transition from LIBOR to ARRs, maintaining operational resilience, enabling strong customer authentication for payments and managing the financial risks of climate change, amongst others.

In 2021, we saw a number of the regulatory interventions to enable banks to assist customers through the COVID-19 pandemic continuing, with further iterations to the government backed schemes. These interventions included mortgage payment breaks, interest free overdrafts, payment breaks for credit cards and government supported loan schemes to support business customers. AIB UK delivered all of these support mechanisms to our customers.

Strategy 2021-23

At the end of 2020 the Board approved AIB UK's Strategic Plan to change the shape of its cost base, achieving a £35m cost reduction, whilst growing certain business lines that contribute to the achievement of return on tangible equity targets of >8% by the end of 2023.

2021's key focus was on the delivery of our strategic development initiatives that we believe will deliver a more simplified, streamlined and strengthened business over the next three years. This required adjustment to our operating model but our five strategic pillars (Customer first, Simple and efficient, Risk and capital, Talent and culture and Sustainable communities) remain unchanged.

We will continue to evolve our sectoral approach to our Corporate business, with key areas of focus including Renewables and infrastructure; Healthcare; Real estate; Capital projects; Diversified industries and Manufacturing, warehousing and logistics. These are sectors we believe have strong fundamentals, supporting them within an economy facing Brexit and COVID-19 impacts. In parallel we will continue to develop our Asset Finance business as a core priority. Our risk appetite for new lending remains under constant review based on market dynamics but we remain committed to supporting existing customers, particularly in the Hotel and Leisure industries, as they work through the impacts of Covid on this sector.

We took the very difficult decision at the end of 2020 to withdraw from the SME banking market in Great Britain, recognising that we operate in a very competitive market that has become increasingly challenging to offer a differentiated customer proposition in without significant capital investment. Following a thorough examination of our options to compete and the potential returns available, we are delivering on this strategy by selling our performing Great Britain SME loan book to Allica Bank, with migration of the first tranche to complete in April 2022 and the second tranche subject to Regulatory approval, as it contains connections with Government backed loans. A phased closure of our transactional banking services to this customer base is to be executed by the end of 2022 in a way that causes the least disruption to our customers' businesses. Driven by our purpose, we will make sure to treat our customers fairly throughout this process.

In Northern Ireland we will continue to focus on driving efficiency, maintaining business growth and future optionality. During 2021 we also made the very tough decision to close eight of our branches in Northern Ireland as changing customer behaviours meant these services were no longer viable.

We see significant opportunities for our mortgage business which will augment our existing successful business models in the corporate and business sectors.

The pivoting of our business as outlined above has also required an adjustment to our operating model. Our workforce has also changed reflecting the evolving shape of our business, customer needs and workplace trends ensuring that we have the right capabilities in the right place to become a leaner, more flexible and agile organisation.

Conclusion

2021 has undoubtedly been a difficult year from both a business and a personal perspective as the impacts of the pandemic continue. However, I believe we at AIB UK can be proud of our achievements this year and I believe we will emerge from the pandemic a leaner and much improved organisation. Our strong foundations, commitment to a customer led purpose and core values mean that we can look forward to 2022 with confidence, ready to meet the challenges to come.

Robert Mulhall

Robert Mulhall
Managing Director

2 March 2022

Financial review

"Strong performance, notwithstanding impacts of the pandemic and strategic implementation, AIB UK is well positioned for delivery of greater 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 22.

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 66 onwards.

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

Summary income statement	2021 £m	2020 £m
Net interest income	198	215
Adjusted other income	55	47
Total adjusted operating income	253	262
Total adjusted costs	(139)	(145)
Regulatory fees	(1)	(1)
Adjusted operating profit before expected credit losses	113	116
Net credit impairment writeback/(charge)	8	(178)
Adjusted profit/(loss) before tax	121	(62)
Loss on sale of loan portfolio	(9)	—
Voluntary severance	(11)	(2)
Restructuring provision	(6)	(25)
Impairment of intangible assets	—	(5)
Impairment of property, plant and equipment	(6)	(6)
Loss on disposal of property	(3)	—
Total adjustments [1]	(32)	(43)
Statutory profit/(loss) before tax	89	(105)
Tax	81	21
Statutory profit/(loss) after tax	170	(84)

Summary balance sheet	2021 £m	2020 £m
Gross loans to customers	6,399	7,102
Expected credit losses	(201)	(245)
Net loans	6,198	6,857
Other assets	6,490	5,653
Total assets	12,688	12,510
Customer accounts	10,088	9,979
Other liabilities	808	857
Shareholders' equity	1,792	1,674
Total liabilities and shareholders' equity	12,688	12,510

[1] Further analysis of these adjustments can be found on page 16.

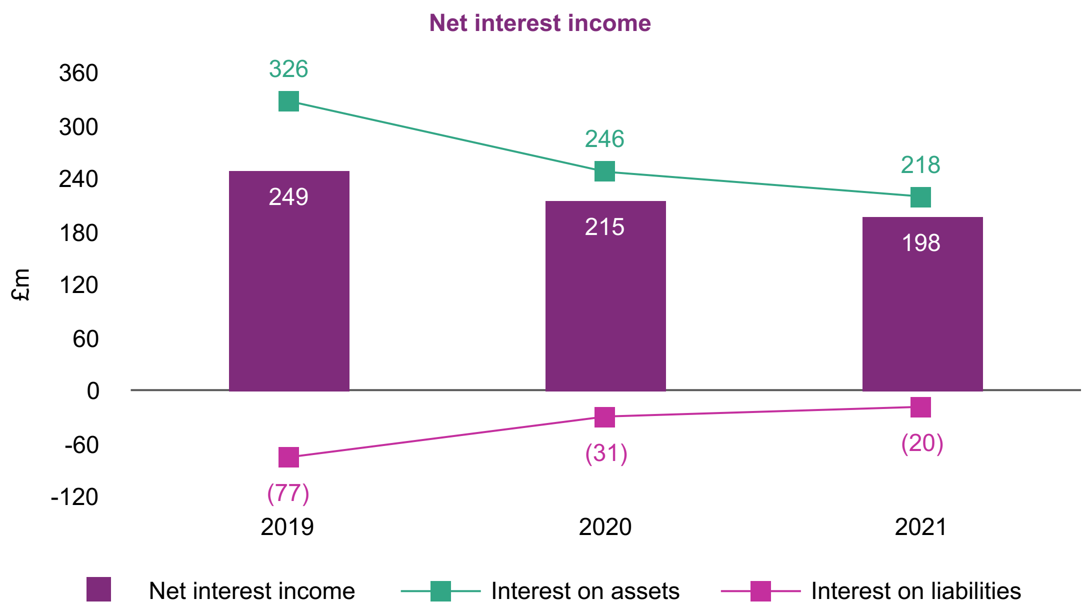
Summary income statement review

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

Total adjusted operating income	NIM	Other income
£253m	**1.6%**	**£55m**
£262m	1.9%	£47m

Net interest income

	2021	2020	Change
	£m	£m	%
Net interest income	**198**	215	(7)
Average interest earning assets	**12,211**	11,305	8
	%	%	%
NIM	**1.6**	1.9	—
Banking NIM	**2.8**	2.9	—



Net interest income decreased by £17m (8%) compared to 2020 due to a reduction in income on assets from lower asset yields on the back of the low Bank of England base rate and LIBOR over 2021. This was partially offset by a reduction in the interest expense on customer accounts and other funding.

Net interest margin

The net interest margin decreased by 0.3% from 1.9% in 2020 to 1.6% in 2021. This is due to lower asset yields as a result of low Bank of England base rate of 0.10% through the majority of 2021 and a fall in other sterling interest rates. This was partially offset by a reduction in the interest rates paid on customer accounts and other liabilities.

Average balance sheet

	Year ended 31 December 2021			Year ended 31 December 2020		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Assets	£m	£m	%	£m	£m	%
Loans and receivables from customers	6,683	197	3.0	6,976	224	3.2
Balances with central banks & other interest earning assets	5,492	21	0.4	4,329	22	0.5
Average interest earning assets	12,175	218	1.8	**11,305**	**246**	**2.2**
Non interest earning assets	700			732		
Total assets	12,875	218		**12,037**	**246**	
Liabilities and equity						
Customer accounts	7,992	10	0.1	7,430	19	0.3
Other interest bearing liabilities	669	10	1.5	719	12	1.7
Average interest bearing liabilities	8,661	20	0.2	**8,149**	**31**	**0.4**
Non-interest bearing liabilities	2,510			2,134		
Equity	1,704			1,754		
Total liabilities and equity	12,875	20		**12,037**	**31**	
Net interest income	12,175	198	1.6	**11,305**	**215**	**1.9**
Banking net interest income	6,682	188	2.8	**6,976**	**205**	**2.9**

Average interest earning assets of £12.2b in 2021 increased by £0.9b compared to 2020, primarily due to funds placed with banks. This was driven by excess liquidity mainly due to an increase in interest bearing and non-interest bearing customer accounts balances.

Adjusted other income

	2021	2020
	£m	£m
Retail banking customer fees	14	15
Credit related fees	12	11
Foreign exchange fees	7	8
Service charge	3	3
Credit card commission	3	3
Other fees and commission	6	5
Fee commission expense	(4)	(4)
Interest rate contracts	7	(1)
Investment securities - equity	6	2
Other operating income	1	5
Other income	55	47

Adjusted other income increased by £8m (17%) to £55m, compared to £47m in 2020. This is largely due to higher income from interest rate contracts and positive gains on the fair value of equity investments. The decrease in Other operating income is due to profits from sale of individual loans in 2020 not repeated in 2021. The sale of the GB SME portfolio in 2021 has been excluded and categorised as an APM. See page 22 for more detail.

Statutory other income, which included the loss of £9m on the sale of the GB SME loans, was £46m for 2021, down £1m on 2020.

Total adjusted costs and cost income ratio

Total adjusted costs	Adjusted cost income ratio
£139m	**55%**
£145m	55%

Total adjusted costs	2021 £m	2020 £m	change %
Personnel costs	79	80	(1)
General & administrative costs	47	50	(6)
Depreciation, impairment and amortisation	13	15	(13)
Total adjusted costs	**139**	**145**	**(4)**
Employee numbers at period end ('FTE')	715	968	(26)
Average employee numbers	901	975	(8)

Total adjusted costs

Total adjusted costs have decreased by £6m (4%) to £139m compared to 2020.

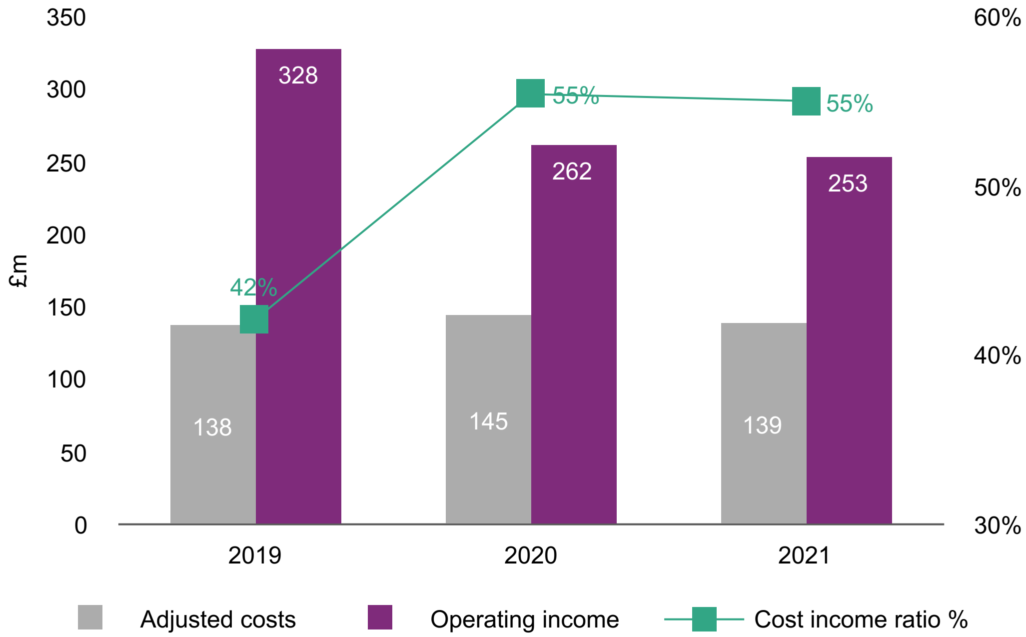
Personnel costs decreased by £1m compared to 2020 as a result of a reduction in Full Time Equivalents ('FTEs') arising from the voluntary severance programme carried out by the organisation, decreasing the average employee numbers (see note 10).

General and administrative costs have decreased by £3m compared to 2020 due to the reduced footprint in branches across the UK, savings achieved as a result of less travel, subsistence and entertainment costs along with lower professional fees, offset by other operational costs associated with the continued economic impacts of COVID-19.

Depreciation, impairment and amortisation costs decreased by £2m due to impairments made in 2020 reducing the 2021 amortisation and depreciation charges.

Statutory total operating expenses of £160m in 2021 decreased from £189m in 2020 by £29m due largely to lower restructuring costs, lower provision for customer redress and no impairment of intangible assets in 2021. This includes £30m (2020: £30m) of allocated costs from AIB plc.

Adjusted cost income ratio



Adjusted costs of £139m (down 4%) and income of £253m (down 4%) resulted in a cost income ratio of 55% in 2021, in line with 2020. Statutory cost income ratio of 66% in 2021 reduced from 72% in 2020.

Regulatory fees

	2021 £m	2020 £m
Regulatory fees	(1)	(1)

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

Net credit impairment charge

	2021 £m	2020 £m
Net credit impairment writeback/(charge)	8	(178)

There was a net credit impairment writeback of £8m in 2021, compared to a £178m charge in 2020. The reduction in Expected Credit Losses since 2020 is primarily due to the improved economic outlook. See note 21 for more detail.

Total adjustments

	2021 £m	2020 £m
Adjustments from other income:		
Loss on sale of loan portfolio	(9)	—
Adjustments from total operating expenses:		
Voluntary severance	(11)	(2)
Restructuring provision	(6)	(25)
Impairment of intangible assets	—	(5)
Impairment of property, plant and equipment	(6)	(6)
Customer redress	3	(5)
Total	(20)	(43)
Loss on disposal of property	(3)	—
Total adjustments (1)	(32)	(43)

These are items that management believes due to their size or nature impact the comparability of performance for period to period:

- Loss on sale of loan portfolio: loss from derecognition in 2021 arose from the sale of a portfolio of AIB GB performing SME loans.
- Voluntary severance: the costs relating to employee exits during the year and in to 2022 as part of the targeted restructure associated with the strategy implementation. These voluntary severance payments are specific and particular to the individuals concerned.
- Restructuring provision: provision to cover professional fees and implementation costs associated with the strategy implementation and related property exits.
- Impairment of intangible assets: reflects impairment of capitalised project expenditure following a review where the assets related to regulatory requirements or business change investments that have been superseded.
- Impairment of property, plant and equipment: impairment for right-of-use assets and on fixtures & fittings within properties that AIB UK are due to exit as part of the strategy implementation and in tandem with the restructuring provision referenced above.
- Customer redress: movements in provisions held in relation to customer restitutions. The costs of customer restitutions are accounted for as adjusted items as they occur, as they are not comparable to costs or income booked as operational in preceding financial periods.
- Loss on disposal of property: loss on properties exited during 2021. See note 33 for more detail.

Tax

	2021	2020
	£m	£m
Income tax credit	81	21

In 2021 there was an £81m income tax credit, compared to a credit of £21m in 2020. The £81m comprised a current tax charge of £7m (2020: £26m credit) and deferred tax credit of £88m, mainly due to an increase in the deferred tax asset recognised for tax losses (2020: £5m charge). See note 13 for further details.

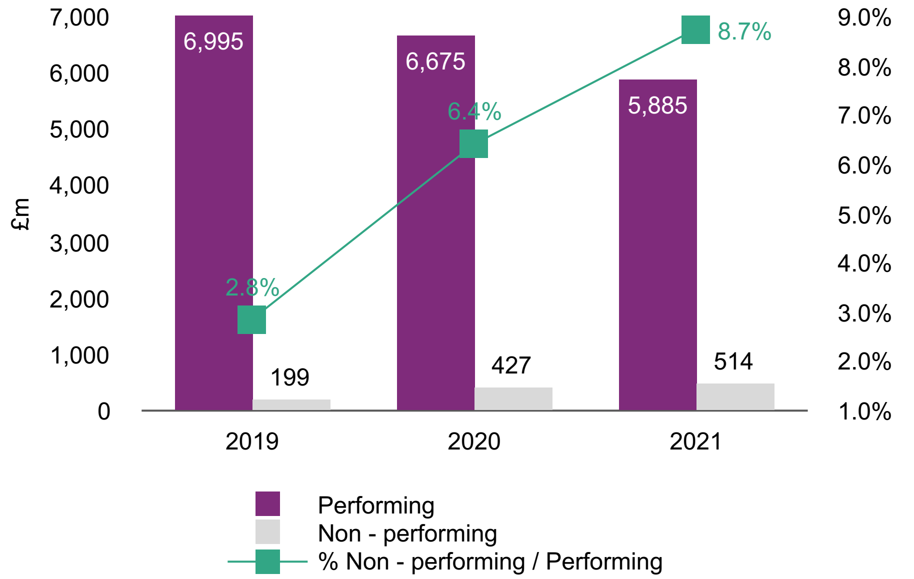
Balance sheet review

Assets

Performing loans	Non-performing loans	New lending	Expected credit losses
£5.9b	**£0.5b**	**£1.3b**	**£201m**
£6.7b	£0.4b	£1.5b	£245m

	31 Dec 2021	31 Dec 2020	change
Assets	£m	£m	%
Gross loans to customers	6,399	7,102	(10)
Expected credit losses	(201)	(245)	(18)
Net loans to customers	6,198	6,857	(10)
Cash and balances at central banks	5,306	4,541	17
Intercompany assets	233	140	75
Other assets	951	972	(4)
Total assets	12,688	**12,510**	**1**

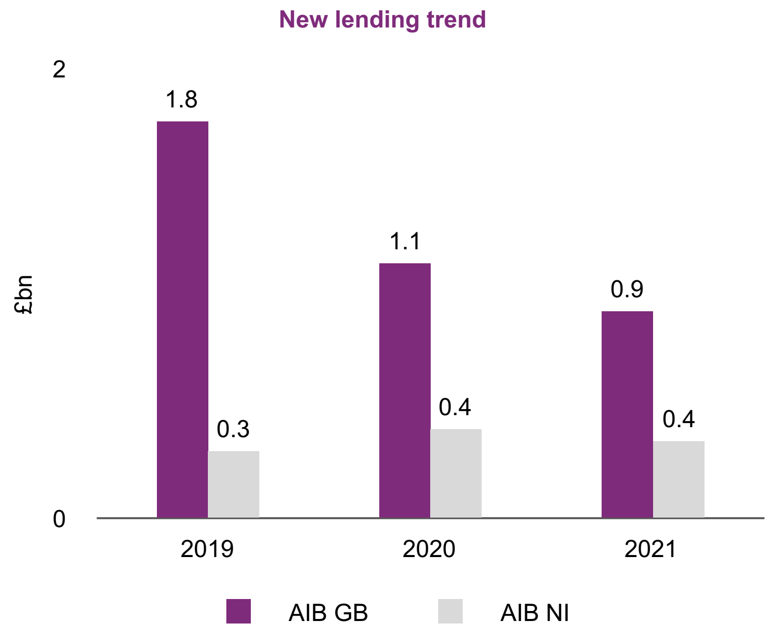
Performing and non-performing loans

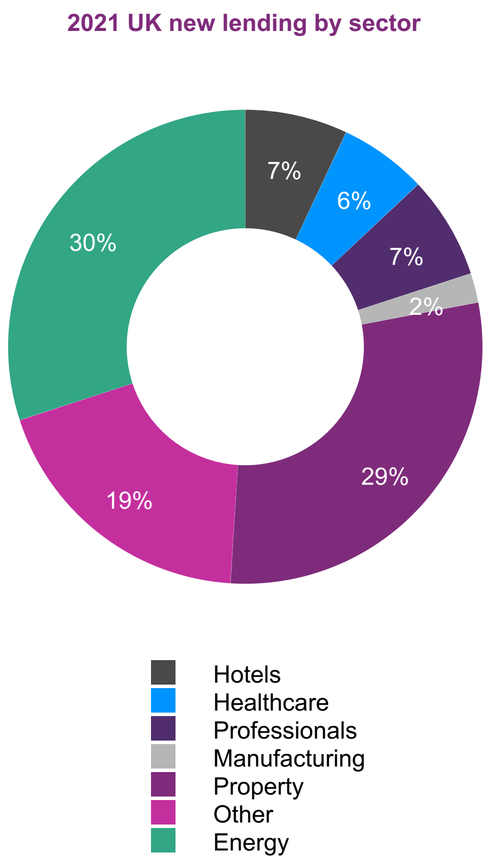


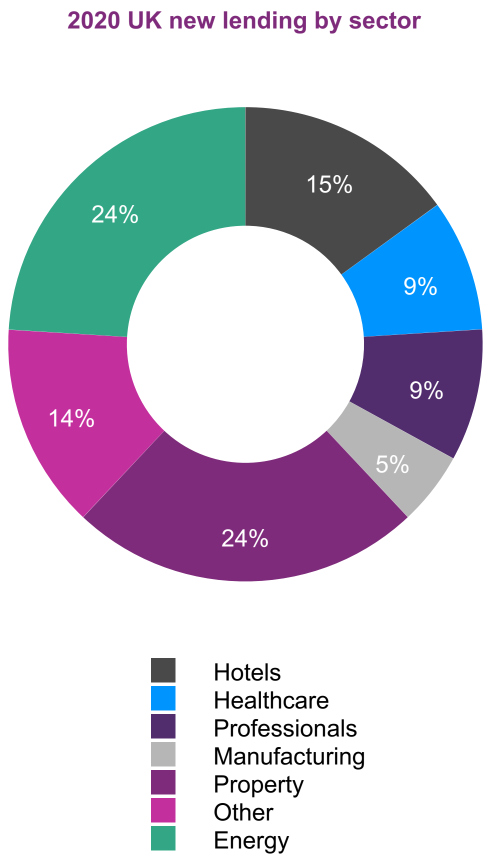
Gross loans to customers

Performing loans decreased by £790m and non-performing loans increased by £87m reflecting sales of portions of the portfolio and a net flow to non-performing, particularly in sectors that continued to be impacted by COVID-19 measures over the period, notwithstanding the government support schemes administered. See note 21 for more detail.

New lending

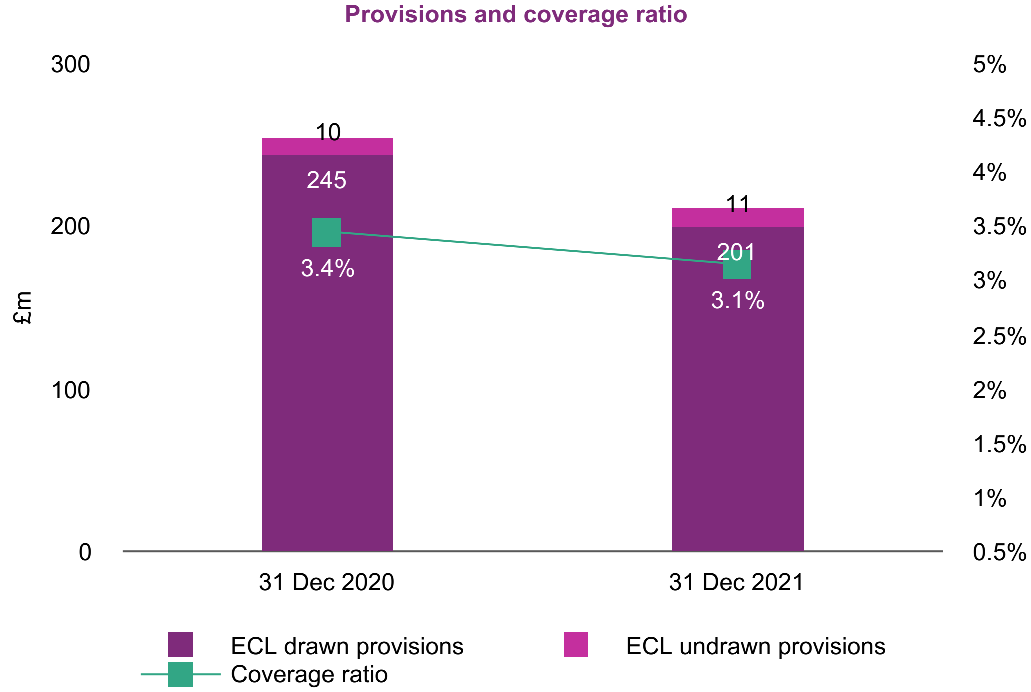






New lending of £1,274m in 2021 was lower by £267m (17%) compared to 2020. New lending decreased due to the economic and market uncertainty as result of the COVID-19 pandemic accompanied with the wind down of government supported measures. There was reduced activity in key sectors, including Healthcare, Hotels and Manufacturing whereas Energy and Property sectors remained buoyant in 2021.

Expected credit losses



The balance sheet provision for loss allowances are on an IFRS 9 ECL basis. The ECL on loans at 31 December 2021 is £201m and ECL on undrawn facilities and guarantees is £11m. This is £43m lower than at 31 December 2020 due to the improvement in the macroeconomic outlook; with implementation of more favourable macroeconomic scenarios and weightings and disposal of default legacy home loans.

The ECL provisions on drawn loans at 31 December 2021 were £44m lower than at 2020 year-end.

Summary of movements in loans to customers

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

Loans to customers	Performing loans £m	Non-performing loans £m	Loans to customers £m
Gross loans at 1 January 2021	**6,675**	**427**	**7,102**
New lending[(1)]	1,258	16	1,274
Redemptions of existing loans[(2)]	(1,482)	(193)	(1,675)
Portfolio disposals	(267)	(23)	(290)
Write-offs and restructures	—	(20)	(20)
Net movement to non-performing	(268)	268	—
Foreign exchange movements	(14)	1	(13)
Other movements	(17)	38	21
Gross loans at 31 December 2021	**5,885**	**514**	**6,399**
ECL allowance	(107)	(94)	(201)
Net loans at 31 December 2021	**5,778**	**420**	**6,198**

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

(1) New lending includes new drawdowns on Revolving Credit Facilities.

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

In note 21(g): 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
£10.9b	**£1.8b**
£10.8b	£1.7b

	31 Dec 2021	31 Dec 2020	change
	£m	£m	%
Customer accounts – current accounts	7,062	6,943	2
Customer accounts – deposits	3,026	3,036	—
Total customer accounts	10,088	9,979	1
Intercompany liabilities	184	201	(9)
Other liabilities	624	656	(5)
Total liabilities	**10,896**	**10,836**	**1**
Shareholders' equity	1,792	1,674	7
Total liabilities and equity	**12,688**	**12,510**	**1**
Loan to deposit ratio	62 %	69 %	(11)

Total customer balances increased by £109m in 2021, predominantly within current accounts. The increase in current accounts is reflecting higher balances from personal and business customers as spending activity remained low as a result of COVID-19 restriction measures in place through 2021.

The increase in shareholders' equity of £118m to £1,792m is driven by the profit recorded in 2021.

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 9.95%. AIB UK Group currently report capital on a transitional basis. See page 21 for more detail.

	Transitional	Fully loaded
Capital	£m	£m
CET1 at 31 December 2020	1,521	1,432
Movements:		
Reserves	1	1
IFRS 9 transitional adjustment	(23)	0
Deferred tax	7	7
Intangible assets	2	2
CET1 at 31 December 2021	**1,508**	**1,442**
Capital ratio at 31 December 2021	**22.81%**	**22.01%**

	Transitional	Fully loaded
Risk weighted assets	£m	£m
At 31 December 2020	7,353	7,266
Credit risk	(734)	(704)
Operational risk	(8)	(8)
At 31 December 2021	**6,611**	**6,554**

Regulatory changes

COVID-19 relief
A suite of measures was introduced to support the financial sector during the COVID-19 pandemic. These included the reduction in the Countercyclical Capital Buffer to zero that was introduced in March 2020 by the Bank of England. Other capital measures include amendments to transitional rules for IFRS 9 in respect of COVID-19 related losses since March 2020.

SME 501a
Capital Requirements Regulation ('CRR') Article 501 has been applied which allows institutions to apply a discount factor of 0.7619 for SMEs with an exposure of less than or equal to €2.5m and a discount factor of 0.85 for SMEs with an exposure greater than €2.5m. At December 2021 AIB UK Group has availed of £273m RWA benefit through the use of this.

Software
In accordance with Commission Delegated Regulation (EU) 2020/2176 the deduction for intangible software assets from capital was reduced and replaced with a risk weighting in 2020 in response to the COVID-19 pandemic. The PRA have confirmed that from 1 January 2022 they will revoke this European Union ('EU') regulation and intangible assets will return to be deductible from capital.

Transitional and fully loaded ratio
AIB UK Group currently report capital on a transitional basis, taking into account transitional arrangements for the capital impact of IFRS9 ECL accounting, which reduces on a phased basis by 2024.

Transitional CET1 of 22.81% increased in the year primarily due to a decrease in RWA which reflects a reduction in customer exposures as a result of the sale of GB SME loans and restricted lending in sectors impacted by COVID-19, partially offset by increases in defaulted exposures.

The removal of transitional arrangements from capital and RWA reduces the 31 December 2021 capital ratio from 22.81% to a fully loaded capital ratio of 22.01%.

Liquidity

AIB UK Group continues to have a strong funding position. The loan to deposit ratio was 62% at 31 December 2021 (2020: 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 79% (2020: 82%) of its total liabilities and shareholders’ equity.

Under Capital Requirements Directive IV (‘CRD IV’), the key liquidity metric is a minimum Liquidity Coverage Ratio ('LCR') requirement. The LCR regulatory limit was set at 100%. As at 31 December 2021 AIB UK Group’s LCR was 169% (2020: 178%), significantly in excess of this minimum requirement in 2021.

Janet McConkey
Chief Financial Officer

2 March 2022

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.
Banking net interest margin	Net customer interest income divided by average customer interest earning assets.
Average interest earning assets	Average interest earning assets includes loans and receivables to customers. Averages are based on month end balances for all categories with the exception of loans and receivables, which are based on daily averages.
Average rate	Interest and similar income divided by average interest earning assets.
Average interest bearing liabilities	Average interest bearing liabilities includes deposits by banks, customer accounts and intercompany balances. Averages are based on month end balances for all categories with the exception of customer accounts, which are based on daily averages.
Average cost of funds	Interest expense and similar charges divided by average interest bearing liabilities.
Adjustments	These are items that management believe due to their size or nature impact the comparability of performance from period to period: – Profit on sale of loan portfolio: loss from derecognition in 2021 arose from the sale of a portfolio of AIB GB performing SME loans. – Voluntary severance: the costs relating to employee exits during the year as part of targeted restructures. These voluntary severance payments are specific and particular to the individuals concerned. – Restructuring provision: professional fees and implementation costs associated with the strategy implementation and related property exits. – Impairment of intangible assets: reflects impairment of capitalised project expenditure following a review, where the assets related to regulatory requirements or business change investments that had been superseded. – Impairment of property, plant and equipment: impairment for right-of-use assets and on fixtures & fittings within properties that AIB UK are due to exit as part of the strategy implementation and in tandem with the restructuring provision referenced above. – Customer redress: movements in provisions held in relation to customer restitutions. The costs of customer restitutions are accounted for as adjusted items as they occur, as they are not comparable to costs or income booked as operational in preceding financial periods. – Profit on disposal of property: loss on properties exited during 2021. See note 33 for more detail.
Cost income ratio	Total adjusted operating expenses excluding Regulatory fees divided by total operating income.
Loan to deposit ratio	Loans and receivables to customers divided by customer accounts.
Coverage ratio	Drawn credit provisions divided by drawn total loans.
Non-performing / Performing loans	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. Performing loans are classified as Stage 1 or Stage 2 based on staging characteristics as reported in note 21.

Our strategy

2021 marked the beginning of a new three year strategic cycle for AIB UK, following the strategy development process that was carried out in 2020 as part of an overall AIB UK Group strategic review.

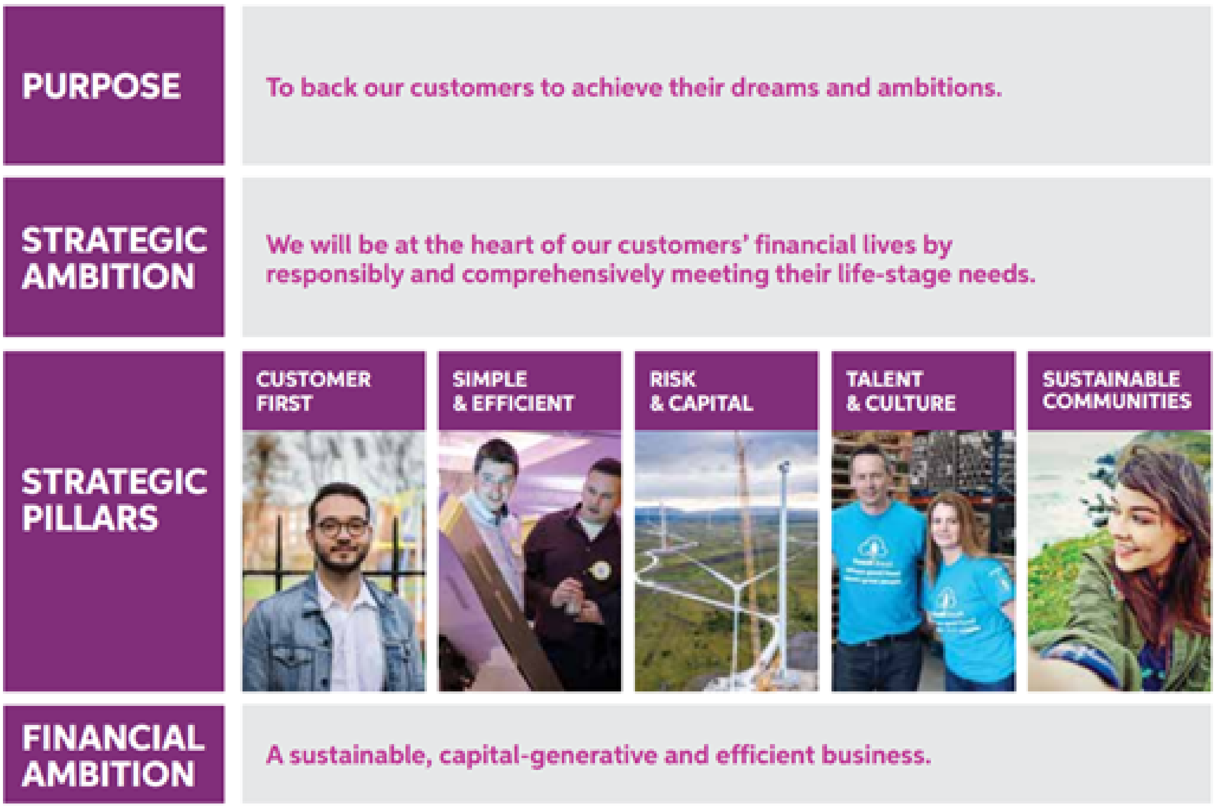
Purpose-led strategy

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

Our strategic ambition is to be at the heart of our customers' financial lives by responsibly and comprehensively meeting their life-stage needs. We aim to be a sustainable, capital-generative and efficient business delivering outstanding outcomes for our customers, our people, our shareholders and our stakeholders.

Our business strategy aims to achieve a balance between investing to sustain competitiveness while delivering attractive returns.

We describe our business and strategy through five strategic pillars, which determine our areas of focus and drive our investment programme.



Everything starts and ends with our customers. Every action we take and decision we make centres on putting customers first.

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

Pillar	Measure	Description
Customer first We put our customers at the heart of our organisation, continually adapting our product and service offerings to meet their needs. We have deep expertise in chosen sectors and customer segments. We provide a digitally-enabled, multi-channel banking experience which allows customers to interact with the Bank how and when they want.	**Customer journey (days to drawdown)**	A measure of time between information received from the customer to drawdown
	Complaints per 1k customers	Number of complaints received per 1,000 customers
Simple and efficient We make things simpler, focusing our efforts on what has the greatest impact on our customers' experiences. Our products and services are simple and easily accessible, supported by a resilient and agile technology platform.	**Operational productivity / Re-work**	Measure of the number of cases processed at each stage of the drawdown journey and level of re-work required
	Cost income ratio	Financial benchmark of efficiency
Risk and capital We are increasing the value of the business while maintaining a strong risk management framework, improved asset quality and robust capital levels. We offer value to our customers while consistently delivering a strong financial performance that paves the way for future development and addresses legacy challenges.	**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 support accountable, collaborative and trusted ways of working. We promote a culture of diversity and inclusion, where people can be at their best.	**Gender balance**	% females in management roles
	Engagement	Response rate from all colleagues to COVID-19 impact surveys
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 where we operate.	**Renewables drawdowns**	% of new business drawdowns associated with renewable and sustainable industries
	AIB Together	Number of days spent by our people volunteering for local charities or community organisations

Strategy 2021-2023

AIB UK will become a corporate focused bank across the GB market and will continue to be a retail and business bank in Northern Ireland. Our key focus will be on re-shaping the business to ensure we build a long-term sustainable business that delivers for our customers, our communities, our people, our shareholders and our stakeholders.

In 2021 we focused on six key strategic initiatives making good progress on each during the year, generating cost savings and positioning AIB UK for growth.

Strategic initiative	2021 achievements	2022 and beyond
Exit GB SME market	We exited the GB SME market with an agreed bid with Allica Bank on a portfolio sale of £0.6b	We will complete the transition of the GB SME loan book to Allica Bank in 2022, while supporting these customers on this journey. A phased closure of our transactional banking services to SME customers to complete our withdrawal from the SME GB market; we will make sure to treat these customers fairly.
Corporate growth	We reorganised the business to focus on corporate growth in the following sectors: • Renewables and infrastructure • Property / Real estate finance • Healthcare • Manufacturing, warehousing & logistics • Diversified industries	We will continue to develop insights and to embed our strategies to grow the AIB UK balance sheet in our preferred sectors to support the profitability and RoTE ambition of AIB UK and the Parent Group
Asset based lending	We established a dedicated ABL team within the corporate structure, with dedicated relationship managers to support our ABL customers	We will enhance the capability, efficiency and competitiveness of our ABL business through system and product development
Retail and NI	We reorganised our retail footprint in NI, closing 8 branches. We developed and commenced the implementation of the TOM for our business banking proposition. We completed the refurbishment of the Ann Street head office in Belfast.	We will continue to support our NI customers, ensuring our propositions meet their needs across personal, business and corporate segments
Target Operating Model	We launched a new TOM for our business in November 2021 which allowed the release of >300 FTEs from the UK business, cost savings of c. £35m (by 2023) and closure of 13 business centres.	We will embed the TOM fully to ensure we are operating to our maximum efficiency with resultant improved customer journeys and experience
Sustainability	In 2021, AIB UK achieved £275m of Green Lending, of which £38.6m related to Green Mortgages (27% of UK Mortgages). The Ann Street head office refurbishment resulted in over 100,000kWh per annum energy reduction.	Our ambition is that green/transition lending will account for 70% of all our new lending by 2030

Sustainability

Overview

We recognise that the scale and impact of our business confers on us a responsibility and role across the economy and society. At the heart of our strategy is a commitment to help ensure a greener tomorrow by backing those building it today. Our strategy for Sustainable communities is focused on three areas: Climate and Environment; Economic and social inclusion; and, Future-proof business. Our priorities for each area are the result of extensive stakeholder engagement, including an independent bi-annual materiality and evaluation process conducted by the Parent Group.

The Parent Group became a supporter of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures ('TCFD') in 2019, and has further reinforced its commitment and ambition in signing up to the Net Zero Banking Alliance, Equator Principles, World Economic Forum Stakeholder Capitalism Metrics and UN Global Compact in 2021. The Parent Group plc publishes its Sustainability Report alongside the Annual Financial Report, at aib.ie/sustainability, setting out the whole group's progress on our sustainability journey. Detailed below is an overview of the progress AIB UK has made as part of the Parent Group's execution of the Sustainability strategy.

Environmental

The Parent Group has committed to achieving carbon neutrality across all operations by 2030, using a net zero approach, and announced an ambition to align customer portfolios across all sectors to net zero carbon emissions by 2040 (excluding agriculture which will require further support). In addition at the Parent Group level we are supporting our customers and communities in their transition to a low-carbon economy with an ambition that green/transition lending will account for 70% of all new lending by 2030.

AIB UK is part of the Parent Group multi-year Sustainability Regulatory Programme which incorporates it's responsibility for the Parent Group's delivery on the expectations of the ECB & PRA to manage the financial risks of climate change, achieving the organisation's strategic ambitions and assisting customers to transition to a low carbon economy.

Social

We aspire to a fairer society that is socially and economically inclusive. We do this by raising awareness and investing in our customers, colleagues and communities;

- We provided our SME customers with four British Business Bank COVID Loan Schemes to support them with access to finance
- Through our UK Corporate Housing teams we support access to affordable homes through our lending to social housing. The Parent Group has published its Group Social Bond framework and these loans may form part of the Parent Group Social Bond Issuance
- Through our Charity Partner Cancer Research UK we raised £13,000 in 2021
- We offer our colleagues the opportunity to take two volunteering days per annum and flexible working arrangements including working from home.
- We continued to work with our suppliers in the integration of the Parent Group's Responsible Supplier Code that was published in 2020.

Governance

The AIB UK Board maintains oversight of climate change and other areas of sustainability as it relates to AIB UK and reviews material items. In 2021, as part of an enhancement to our governance of Sustainability in AIB UK, the Chair of the Parent Group's Sustainable Business Advisory Committee joined the AIB UK Board. The AIB UK Board along with the Leadership Team maintains oversight of climate and other sustainability related metrics via the AIB UK Group Sustainability Balanced Scorecard. Senior Manager Regime accountability has been assigned to the Head of Customer, Insights, Support and Enablement reporting to the UK Managing Director.

Sustainability is integral to AIB UK's operations, and we provided regular training on environment, social & governance (including Environmental, Social & Governance ('ESG') regulatory training) matters at Board, Leadership Team and to all colleagues through mandatory training modules, the latest one covering climate risks and opportunities. Mandatory sustainability objectives are required for all colleagues in 2022 & beyond.

Strategy

As part of the Parent Group Sustainability Regulatory Programme, AIB UK has identified climate opportunities for key sectors, and areas prioritised for investment as part of an ongoing strategy review. AIB UK strategy is focused on increasing our green lending through our UK Corporate energy and infrastructure teams, predominantly in the area of project finance for renewable energy, and for residential property through our UK Green mortgage product launched in

2020. Green mortgages are offered to new & existing mortgage borrowers buying a home (private dwelling) which has an Energy Performance Rating ('EPC') of A or B. The AIB UK 2022 - 2024 financial planning cycle includes emissions reduction targets across key sectors to monitor and measure our progression to reducing carbon intensity over the short, medium and long term. A Sustainable Lending Framework has been defined for categorisation of green & transition lending and published externally, and a programme is underway to integrate into our systems to tag more of our lending activity.

Risk management

AIB UK is focused on enhancing the management of financial risks of climate change, and integrating them into our Risk Management framework to support delivery of PRA expectations under Supervisory Statement (SS3/19). In January 2021 we implemented a defined list of excluded activities into the Parent Group Credit Risk policy which supports the management of credit risk across the Parent Group. ESG considerations are integrated into our corporate and commercial credit applications. ESG risks to the Bank are defined as risks that stem from the current or prospective impacts of ESG factors on the Bank's counterparties or invested assets i.e. core activities to the Bank.

Alongside the Parent Group, AIB UK conducted a climate risk heat-mapping exercise to determine the most likely sectors with greatest exposure to physical and transition risks and developed a methodology to use scenario analysis to quantify climate related risks for our commercial customers. AIB UK introduced a new ESG questionnaire for borrower's in high climate risk sectors to assess their ESG risk, the outputs of which feed into the credit assessment process.

In terms of quantifying climate risk, two transition risk prototypes have been developed for the Parent Group; a sector specific agriculture prototype and a non-sector specific Emissions based prototype. The Emissions prototype includes a sample of borrowers across the Manufacturing, Transport & Non-renewable energy sectors. These prototypes assess the credit impact on a sample of the Parent Group's and AIB UK Group's largest exposures in ROI and UK under different Network for Greening the Financial System ('NFGS') climate scenarios. The scenario analysis considered a number of different parameters to explore the impact on the borrower's financial position.

For the physical risk, the initial analysis has been focused on quantifying flood risk. Flood data for UK commercial properties has been acquired and integrated into our data warehouse.

In addition, qualitative statements relating to climate risk have been integrated into the UK Material Risk Assessment ('MRA') and Risk Appetite Statement ('RAS'). Climate risk has been identified as a cross cutting risk driver and therefore as part of our material risk assessment is considered across all of the AIB UK material risks. An in-depth review has taken place of the Parent Group's Enterprise Risk Management Framework with respect to climate risk and areas for enhancement were identified, with a number of gaps closed in 2021 including updates to a number of policies.

There is a Data and systems programme of work in progress to capture required data fields for climate-risk quantification and emissions reduction measurement.

Targets and metrics

AIB UK made progress against the Parent Group 2020 climate ambition;

- £275m of Green lending
- 27% of UK mortgage lending was provided by our Green mortgage
- At year end 2021 UK assets account for 22% of the underlying collateral that allow the Parent Group Treasury to issue Green and Social bonds
- 7% year on year reductions in Scope 1 & 2 emissions in our own operations (26% reduction from 2019 baseline)

As part of the AIB UK annual financial planning cycle green lending targets have been set across key portfolios including Mortgages and Electricity generation, and in addition for the first time emission reductions targets have been set for key sectors covering Electricity generation, UK Commercial real estate & UK mortgages. Green lending is monitored on a monthly basis and forms part of a quarterly scorecard.

Energy and CO_2 emissions data is set out below.

Streamlined Energy and Carbon Reporting

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

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

AIB UK has a dedicated Energy team which delivers the energy management strategy derived from the Parent Group Energy policy. AIB UK has procured 100% renewable electricity supply & a biogas supply to the UK locations. In December 2020, the Parent Group made a commitment to Net Zero carbon in its own operations (Scope 1 & 2) by 2030, which further enhances its dedication to sustainability. The Parent Group has reporting obligations under the Energy Savings Opportunity scheme ('ESOS') and has achieved full re-certification of ISO 50001:2018 standard during 2020 which satisfies the specific ESOS requirements for AIB UK.

To reduce the energy consumption of our UK property portfolio we have adopted a continuous improvement approach to increase our energy efficiency in our operations based on ISO 50001. During 2020, we temporarily closed our offices during March & April in response to the COVID-19 pandemic. To ensure we effectively addressed the energy consumption within our buildings, our local facilities teams took measures to adjust lighting, heating and cooling settings to meet only the needs of essential workers and safety guidelines, to ensure minimal energy usage. During 2021, as many of our locations remained vacant, our essential on-site teams and landlords worked to minimise energy consumption where possible through reduced operation of plant & equipment.

For 2020 and 2021 a portion of our energy reduction can be allocated to staff moving to remote working and the closure or reduced operational capacity of some of our buildings, due to Covid-19 restrictions. In 2020, we undertook a refurbishment of the Ann Street head office in Belfast with over 100,000 kWh per annum of energy reduction as a result. The Ann Street project has been awarded a BREEAM Very Good certification post completion, ensuring AIB UK maintains its focus on continuous energy efficiency improvements.

Our CO_2 emissions (1 January to 31 December) [1]	2021	2020	2019
Location-based carbon emissions			
Total tCO_2e[2]	TBC[9]	**1,584.6**	**2,857.8**
Total Scope 1[3] (natural gas, heating oil & car fuel)	173.0	228.1	282.2
Total Scope 2[4] (purchased electricity)	457.0	445.9	564.1
Total Scope 3[5] (rental car & staff business car travel)	TBC[9]	712.0	2,011.5
Out of Scope[6] (green gas from biomass)	10.0	43.0	16.0
Market-based carbon emissions			
Total tCO_2e[2]			
Total Scope 2[4] (purchased electricity)	—	—	—
Intensity ratio[7]			
Total full time equivalent ('FTE')	922	997	1,026
Total CO_2e per FTE (Location-based)	TBC[9]	1.45	2.79
Scope 1&2 per FTE (Location-based)	0.68	0.68	0.68
Energy consumption (kWh)[8]	2,972,483	3,332,943	4,036,114

Notes:
1. The carbon reporting year for our GHG emissions is 01 January to 31 December. In 2021, we aligned for the first time, our carbon reporting with our financial reporting. Our Scope 1 & 2 emissions for 2021 are 630 tCO_2e. Scope 3 emissions are reported one year in arrears. The Parent Group's 2021 full GHG inventory will be disclosed in our CDP 2022 report. The Parent Group's 2020 and 2021 emissions and details of its approach to assurance over the data can be found here: https://aib.ie/sustainability
2. The methodology is in line with the GHG Protocol Corporate Accounting and Reporting Standard and the Defra Voluntary Reporting Guidelines. We have adopted the operational control approach on reporting boundaries. They include all locations where AIB UK are responsible for the utility costs. Estimations have been included where AIB UK do not have responsibility for utility costs. Figures are rounded.
3. Direct (Scope 1) include AIB UK fuels combustion, Biomass (CH_4 and N_2O), fleet and fugitive emissions. The direct CO_2 associated biomass usage is reported separately from this scope. Since 2021, AIB UK has no mobile combustion emissions
4. Indirect (Scope 2) includes consumption of all AIB UK purchased electricity.
5. Scope 3 covers indirect AIB UK emissions from the following categories: Purchased goods and services; capital goods; waste generated in operations; business travel; employee commuting and fuel-and-energy-related activities.
6. Out of scope (biogenic emissions): CO_2 emissions from biomass combustion (green gas).
7. Intensity ratio calculations have been calculated using Full Time Employee equivalent figures for the UK as per the Parent Group's Financial Reports.
8. Energy consumption data is captured through utility billing; meter reads or estimates. It includes energy from electricity consumption, gas combustion, heating fuel combustion and transport. Note that 2021 energy consumption excludes fuel use in personal/hire cars for business use.
9. 2021 AIB UK total CO_2 emissions are not yet available as Scope 3 emissions are reported one year in arrears.

Non-financial information statement

In AIB UK Group, policies and codes are in place to enable us to operate our business in a responsible and sustainable way. We have set out information on our business model on page 4 and below we have set out some of our key policies related to non-financial matters, providing an understanding of our activity in these areas. Our non-financial information statement is intended to comply with reporting requirements of the Companies Act 2006.

For certain items reference is made to supplemental information in this report, on our websites and in the AIB Group plc Sustainability Report 2020. Where this is the case, links to associated principal risks and relevant information on each matter have been provided. Our non-financial key performance indicators can be found in this report in the How we've done (page 2) and Sustainability (page 26) sections.

Environmental matters

Policies	Risk management	Supplemental information
Environmental policy [1]	• Strategic risk, page 37 • Credit risk, page 38	• Sustainability, page 26
Energy policy [1]		

Social & people matters

Policies	Risk management	Supplemental information
Code of Conduct [1]	• Conduct risk, page 42 • People & culture risk, page 42	• Colleague engagement, page 54 • Social contribution, page 31
Diversity & Inclusion Code [1]		• Board responsibility, page 48 • Talent & culture, pages 9 & 24 • Gender Diversity policy statement [2] • Gender Pay Gap report [2]

Respect for human rights

Policies	Risk management	Supplemental information
Human rights commitment	• People & culture risk, page 42	
Modern Slavery statement [2] [3]	• People & culture risk, page 42	

Bribery & corruption matters

Policies	Risk management	Supplemental information
Anti-bribery & Corruption policy	• Operational risk, page 40 • Regulatory & compliance risk, page 41	• Forms part of our Code of Conduct [1]
Conflicts of Interests policy		• Forms part of our Code of Conduct [1]
Financial Crime policy	• Regulatory & compliance risk, page 41	• Anti-money laundering, page 41

[1] These policies are publicly available at aib.ie/sustainability.
[2] Published on the AIB GB website at aibgb.co.uk.
[3] Published on the AIB NI website at aibni.co.uk.

Section 172(1) statement

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

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

The Directors have considered who the stakeholders of the business are and concluded that the following stakeholders were material to the Company in the year ended 31 December 2021. The Directors also took into account the views and interests of a wider set of stakeholders, including our AIB UK pension holders. Certain stakeholder engagement is conducted at a Parent Group level to engage on matters of Parent Group-wide significance to ensure an efficient approach.

Stakeholder focus	How we engaged	How we responded
Customers	Customers are at the heart of everything the Bank does. Our purpose is to back our customers to achieve their dreams and ambitions. During the year the Board received regular updates on a broad range of customer priorities, including impact assessment and communications for the NI branch closures, and sale of the SME business in AIB GB, customer support updates for Brexit and COVID-19 pandemic, updated Board MI for customers including customer journeys, satisfaction, complaints and vulnerable customer policies. Senior management engaged with customers to understand how we could better support and continue to meet their financial requirements, particularly during areas of strategic change such as branch closures in AIB NI and the sale of the SME business in AIB GB.	Our key customer priority in 2021 was to continue to support our business, corporate, mortgage and personal customers in dealing with the impact of the COVID-19 pandemic. We continued to offer our customers support including payment breaks, working capital solutions and the UK Government backed loan schemes, supporting around 10,000 customers and approving funding support of £284m. Customer propositions across the UK have continued to be developed, aligning to our commitment to play a leading role in building sustainable communities. 2021 has been a year of significant change as we initiated our withdrawal from the GB SME market and reduced our branch footprint in Northern Ireland. Customers have been supported through this change with regular, clear communications with dedicated colleagues on hand to manage customer queries. Our NI Retail NPS score has to date remained stable at +47. However, we have seen a deterioration in our Competition and Markets Authority standings in both NI and GB. The Board continued to oversee the implementation of the new operating models, which when embedded are anticipated to improve the customer experience in both NI and GB.[1]
Our people	Regular calls for all colleagues led by the Managing Director were held to provide wellbeing, business and strategy updates. The Board Chair attended some of these calls with colleagues. All calls include a Q&A session for colleagues to actively participate. Where colleagues wish to report any concerns relating to wrong doing or misconduct, one of the ways they can do this is by raising their concerns via Speak Up, the Bank's whistleblowing service. Board meetings in branches could not be held due to social distancing measures due to the COVID-19 pandemic. It is planned to arrange meetings in 2022 to enable the Board to continue meeting colleagues.	Embedding our values and behaviours to shape our culture has been critical this year, especially in the context of the organisational change experienced. Our values and behaviours continue to be how we deliver on our purpose. The feedback from regular Managing Director calls has been communicated to the Board. The Board in-turn reviewed periodic reports on both People and Culture, the effect of embedding the new operating models and oversaw the launch of a number of culture and wellbeing initiatives.

[1] The Competition and Markets Authority survey ranks the service quality of personal and business account providers in Great Britain and Northern Ireland.

Stakeholder focus	How we engaged	How we responded
The Parent Group	At each meeting the Board receives updates on items considered at the Parent Board from Directors who are part of the Parent Group's Executive Committee or Board. The Parent Group's Chief Executive Officer attends a Board meeting of the Company during the year and the Board Chair is a permanent invitee at the Parent Group's Board Risk Committee. The Company's Board Chair is invited to the Parent Group's Strategy Day. The Company's Managing Director is a member of the Parent Group's Executive Committee and gives regular updates on the AIB UK business and strategic implementation to the Parent Group's Board.	2021 saw the start of the implementation of the new strategic plan, which is aligned to the Parent Group's strategy. The Parent Group's Board is updated regularly on progress. In line with Group governance requirements the Board liaised with the Parent Company in the appointment of new independent Non-Executive Directors, Joe Higgins, and William Fall. Helen Normoyle and Geraldine Casey were appointed as new Parent Group Representative Directors on the Board in 2021.
Regulators	The Board has open and continuous dialogue with the Bank's regulators. The Board Chair and Non-Executive and Executive Directors have formal meetings with the PRA. In addition, individual Directors engage regularly with regulators through continuous assessment and proactive engagement meetings. Representatives from the PRA attended the December 2021 Board meeting to present and discuss their future expectations as set out in their annual Periodic Summary Meeting letter.	During 2021 regulatory engagement remained at elevated levels. During H1 2021 it was necessary to regularly update both the FCA and PRA across the range of the impacts of the COVID-19 pandemic from operational considerations to our management of the Government backed support schemes. While in H2 2021 greater prominence had been devoted to keeping all relevant regulatory bodies and stakeholders updated on progress in implementing our new Target Operating Model. The Board reviewed the PRA's Periodic Summary Meeting letter in December 2021 and committed to providing a formal response.
Communities & the Environment	The Bank is committed to managing the wider social, environmental and economic impacts of its operations which includes the way it deals with its customers and manages sustainability issues in its supply chain. The Bank was focused on assisting communities rebuilding from the initial effects of the COVID-19 pandemic, providing a range of support.	There was a significant increase in community engagement following the announcement of some of the AIB NI branch closures. The Board ensured there was also a particular focus on supporting vulnerable customers with the changes and responding to community concerns. The Board retained an external advisor with specific knowledge of the NI banking market and political environment in the context of the NI strategy. In October 2021, Joe Higgins was appointed by the Board as a Non-Executive Director to support the Board's knowledge of NI. Our people received an extra two days of paid leave to give their time as volunteers and fundraisers to a charity or cause that matters to them. The Board approved our Modern Slavery Statement which can be found on our website and also approved our Gender Pay Gap Report. Climate Action is a key focus area for the Sustainable communities pillar of the Parent Group strategy, with AIB UK playing a key role in contributing to the Parent Group achieving the net zero targets. Further details of AIB UK's achievements and Board oversight in this area can be found in the Sustainability section on page 26.

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

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

Decision	Stakeholder	Considerations
Ongoing COVID-19 pandemic response		
The pandemic continued to have a significant impact on all stakeholder groups and we acted to protect and support our customers, colleagues and the business from the longer term effects of the pandemic.	Customers	Continued to participate in government backed loan schemes to provide assistance to existing business account customers, continuing to accept CBILS applications until their close in March 2021 and following the British Business Bank Pay as you Grow Scheme for BBLS.
	Our people	Many colleagues continued to work remotely throughout 2021 and a hybrid working model was introduced in September. Procedures, cleaning regimes and equipment continued to be updated in branches and offices to keep colleagues safe. Socially distancing in offices was maintained and there was increased communication around wellbeing and remote working.
	Regulators	Continued increased engagement throughout the pandemic.
	Communities	Branches remained open for customers and communities in NI throughout the national lockdowns in 2021.
Strategic implementation		
A new three year strategy commenced in 2021 and implementation began in many areas.	The Parent Group	The strategy was developed alongside and aligned to the Parent Group's strategy. The Board approved the strategy as it was considered most likely to promote the success of the Company.
	Customers	The strategy focuses on growing key target sectors and improving the effectiveness and efficiency of the business to ensure that the delivery is centred on customers. Customer impact has been considered by the Board and UKLT throughout all strategic change initiatives.
	Our people	Talent and capability were key considerations of the strategy and are crucial to the successful implementation of the strategy. A voluntary severance programme was launched alongside an expression of interest for new and existing roles across AIB UK.
	Regulators	Regulators are regularly updated on the strategic implementation plans, particularly relating to the NI branch closures and sale of the AIB GB SME loan portfolio where regulatory requirements were high. A stakeholder management team was established which included engagement with regulators. Regulatory requirements to mitigate financial risks from climate change continued to be monitored within the strategic plan.
	Communities & the Environment	Increased community engagement regarding the AIB NI branch closures. ESG was a key strategic consideration and the strategy is focused on increasing our green lending, reducing carbon intensity over the short, medium and long term as well as developing and embedding our Sustainable Lending Framework.
Performing GB SME Loan Sale		
The agreement of a sale of the performing GB SME loan book to Allica Bank.	The Parent Group	The sale of the performing GB SME loan book was consistent with the agreed strategy and overall AIB UK Group strategy, which re-aligned the business to achieve the plan.
	Regulators	Increased and ongoing regulatory engagement throughout the sale process.

Decision	Stakeholder	Considerations
	Our people	Our colleagues working in the GB Commercial teams have been kept updated on the sale through People Leader and Managing Director calls with Q&A sessions and other strategic implementation communications. Some have left the Bank under the Voluntary Severance scheme and others remain with us into 2023 as we service the portfolio.
	Customers	The sale to Allica Bank was considered a good outcome for customers. Allica Bank is a growing expert SME bank with successful customer policies and a full product offering. Customers were treated fairly throughout the process.
AIB NI Branch Closures		
A number of branches in NI were closed in November 2021.	The Parent Group	The strategy to close a number of the AIB NI branches was aligned to the overall Group strategy to improve the efficiency and effectiveness of the business as a whole and updated the target operating model to deliver effectively for our customers.
	Customers	A customer engagement programme commenced following the announcement of branch closures, including enhanced engagement with vulnerable customers and a dedicated helpline.
	Communities	Enhanced engagement across communities to ensure communication on access to cash and banking services.
	Our People	The new target operating model and branch closures provided opportunities for our people. AIB NI colleagues were also included in the AIB UK wide voluntary severance programme.
	Regulators	Increased engagement with Regulators particularly related to the considerations of treating customers fairly and access to cash arrangements.
Appointment of CFO		
The appointment of Janet McConkey as CFO, following the resignation of Anna Savage, was a key strategic decision.	The Parent Group	Janet was previously Head of Debt Investor Relations for the Parent Group and her appointment reinforces the relationship between AIB UK Group and the Shareholder. She brings over 20 years of experience across financial, regulatory and management accounting roles in the Parent Group to the UK business and has a deep understanding of the Parent Group strategy. As part of Janet's previous role she has developed stakeholder management skills key to the ongoing relationship between AIB UK and the Parent.
	Customers	Janet has previous experience in setting strategic plans and launching new products putting customers first across the Parent's Capital Markets business.
	Our people	Janet has experience in team leadership and development.
	Regulators	The appointment was approved by the PRA at the end of January 2022.

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

Robert Mulhall

Robert Mulhall
Managing Director

2 March 2022

Risk management report

Introduction

Risk is inherent in the provision of financial services and AIB UK assumes a variety of risks in undertaking its business activities. A risk is defined as the possibility of an event occurring that could have an impact on the achievement of a business or process objective, for example, damage the core earnings capacity of the Bank; increase cash flow volatility; reduce capital; threaten business reputation or viability; result in a breach of regulatory or legal obligations; or give rise to poor customer outcomes. Consequently, effective risk management is essential to AIB UK and a key part of its overall strategy in achieving sustainable growth, with Risk and Capital one of the AIB UK's five strategic pillars. This is underpinned by the need to have a strong risk culture, which is driven by and reflected through the Bank's Values, frameworks and policies by risk training and the Three Lines of Defence ('3LOD') model. Collectively these establish the foundation for management and ownership of risk. To further embed this, every employee is required to adopt a relevant risk management objective as part of the annual performance management process to acknowledge the risk responsibilities that are inherent in their role.

AIB UK's approach to identifying, assessing, managing, measuring, monitoring, escalating and reporting risks is summarised in the 12 Risk Management Principles set out in the overarching Parent Group Risk Management Framework. These Principles reflect the Bank's risk philosophy and culture and articulate the high standards against which risk-taking decisions are made.

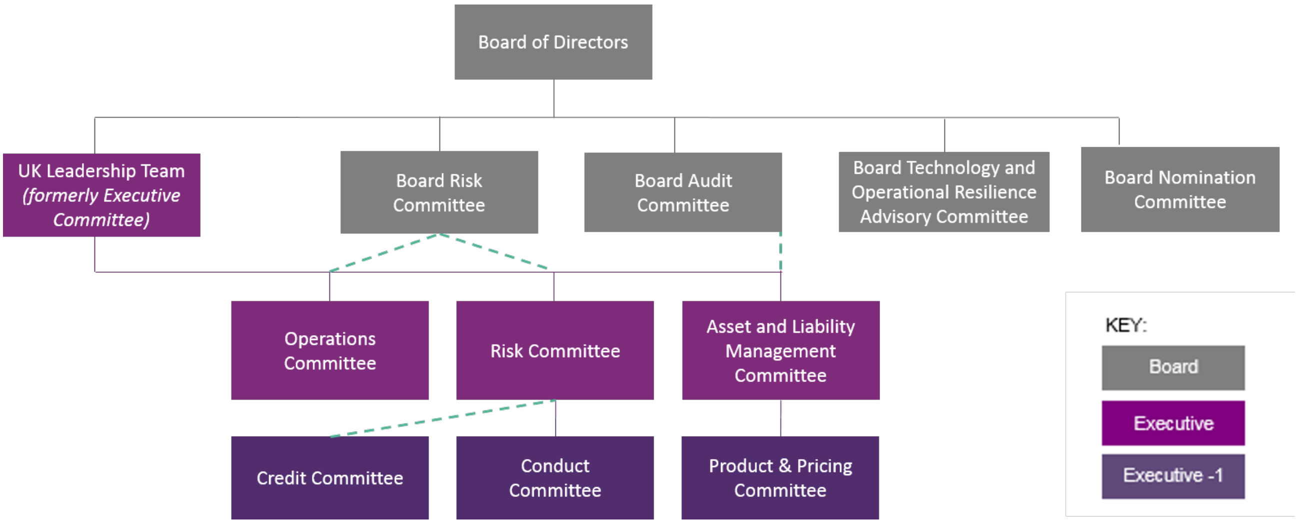
Strategic risk activities and enhancements to the risk management approach in 2021 include:

- Continued application of the 3LOD model, with updates to the Bank's operating structure further embedding the model and providing additional clarity to accountability in risk management activities and decision making;
- Progress in integrating the Bank's Sustainability agenda throughout risk management processes, including assessing physical and transitional climate change risk drivers across AIB UK's material risks, and ESG considerations incorporated within credit policies and applications and in qualitative statements of risk appetite. A multi-year sustainability programme is being implemented with a specific workstream to further support the integration of climate risk into our risk management framework; and
- Building on the linkage across key risk processes by ensuring material risks are measured and managed across the risk spectrum from business-as-usual (e.g. Risk Appetite and Strategic Planning) to stress scenarios (e.g. Internal Capital Adequacy Assessment Process ('ICAAP')) to support organisational preparedness against a backdrop of unusually high macroeconomic uncertainty, the ongoing coronavirus pandemic and the exit of the UK from the EU. The customer support and enhanced monitoring implemented in 2020 has continued as appropriate.

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

Risk governance

The Board has ultimate responsibility for the governance of all risk taking activity in AIB UK. The Board has delegated a number of risk governance responsibilities to various sub-committees. The activities of the Board and Board sub-committees are included in the Corporate Governance Report on page 43.



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

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

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

UK Operations Committee
The UK Operations Committee is chaired by the Chief Operating Officer ('COO') and is responsible for the governance of key operational activities including third party supplier performance, business continuity, data quality and for the change portfolio. The committee is responsible for overseeing the implementation of AIB UK's third party management framework.

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

UK Product & Pricing Committee
The UK Product & Pricing Committee has delegated authority from the UK ALCo and is chaired by the Head of Products. The committee is responsible for governance and oversight of products, propositions and channels, and reviews and approves (where appropriate) the pricing and pricing strategies for packaged products and transaction price points on a risk adjusted basis, driven by target Risk Adjusted Return on Capital ('RAROC') thresholds to achieve AIB UK's financial plan.

UK Credit Committee ('UKCC')
UKCC is chaired by one of the approved senior managers in the UK Credit Team and includes representatives of UK business lines as well as Risk. UKCC is responsible for exercising approval authority for exposure limits to customers in line with the Board approved policies. UKCC also reviews and approves other credit related matters as may occur from time to time. The UKCC is a sub-committee of the Parent Credit Committee.

Three lines of defence

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

The Bank continues to further embed the 3LOD model through its organisational structure and operating model to provide clarity regarding risk management accountabilities and strategic decision making processes. Work has continued in 2021 in respect of the application of the 3LOD principles, criteria, roles and responsibilities across the first and second lines of defence, building on the actions identified from LOD assessments undertaken in 2020.

Three Lines of Defence	
First Line of Defence	Business Units and Functions in the First Line of Defence ('1LOD') 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	Risk and Compliance ('Risk') as the Second Line of Defence ('2LOD') provide independent oversight and challenge to 1LOD, and advice and guidance, with regards to risk management. This includes the setting of risk strategy (articulated through the Risk Plan), frameworks, policies, and limits, consistent with Risk Appetite; credit sanctioning activities; monitoring and challenging the effectiveness of risk management and control processes; and providing independent, objective assessment and reporting on AIB UK's risk exposure and profile. This is supported by second line assurance activity to assess the adequacy of the design and effectiveness of the control environment.
Third Line of Defence	Group Internal Audit is a function within the organisation, independent of the first and second lines of defence, providing to the Board of Directors through the Board Audit Committee, an independent view on the key risks facing the Bank, and assurance on the adequacy of the design and the operational effectiveness of governance, risk management and the internal control environment.

Risk appetite

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

The Bank identifies, assesses and reports on all of its material risks. AIB UK undertakes a top-down MRA process at a minimum 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, with one such threat being climate change. As well as identifying material risks, the MRA is a key input into:

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

Regular and ongoing assessments of bottom-up risks and controls are also undertaken, and in particular in response to a material change in the organisation, to processes, to the internal or external environment, or to events that have occurred. This ensures that all risks are identified, evaluated and controlled in a consistent manner and determines the effectiveness of the risk management practices. For some risks, such as compliance and operational risk, the bottom-up risk assessment takes the form of a Risk & Control Assessment ('RCA'). 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.

Status & Outlook

2021 was the first year of the new three year strategy that sets out significant change to the UK business, including a refocus on targeted sectors in the Corporate Banking market and delivering an operating model that is more agile, efficient and streamlined. The work undertaken in the year has laid foundations for the execution of 2022 deliverables, which include fully embedding the new operating model and growth in the Bank's chosen sectors .

The 2021 achievements were completed in spite of ongoing developments in the macroeconomic environment, including the persistent COVID-19 pandemic and sustained challenges around Brexit. These external challenges remain into 2022, influencing supply chains, inflation and the cost of living. Additionally, it is impossible to predict the consequences of the Russian invasion of Ukraine. All of the above could impact on the Bank in achieving its strategic objectives and therefore will continue to be closely monitored.

The Bank recognises that climate change is a concern for society as a whole and the pivotal role of the financial industry to assist in the necessary transition to a low-carbon economy.

Mitigation

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

Capital Adequacy risk

The risk that the Bank breaches, or may breach, regulatory capital ratios and / or internal targets.

Status & Outlook

The key material risks impacting on the capital adequacy position of AIB UK are Credit Risk and Strategic Business Model Risk, although all material risks can to some degree impact capital ratios.

The Bank's capital position, on both a transitional and fully loaded basis, remains significantly above both minimum regulatory requirements and internal risk appetite limits. Whilst there continues to be strain on the credit portfolio back book primarily due to the pandemic, the capital impact has not materialised to the extent previously expected and AIB UK has headroom to absorb further potential losses whilst supporting the strategy that seeks to optimise capital usage.

Mitigation

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

Credit risk

The risk that the Bank will incur losses as a result of a customer or counterparty being unable or unwilling to meet a credit exposure commitment that it has entered into. Credit exposure arises in relation to lending activities to customers and groups, and can be impacted by sector, geographic or single name concentrations.

Status & Outlook

The credit quality of AIB UK's back book remains strained as a direct result of the pandemic although expected credit loss has performed better than anticipated, in part due to the enhanced credit management processes implemented in 2020 that continued through 2021 and to the improving macroeconomic environment. Nevertheless, the headwinds restraining economic recovery such as the emergence of COVID-19 variants of concern, disruption of supply chains and rising inflation remain a risk to the portfolio.

In additional, physical and transitional risks associated with climate change could impact customer income and / or wealth that in turn may negatively affect their ability to meet their obligations or for the Bank to fully realise the value of collateral in the event of default.

The lending portfolio is well spread by name, sector and geography within the UK, although execution of the strategy will change the composition of the book with risk appetite metrics setting the acceptable concentration levels.

Mitigation

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

Liquidity & Funding risk

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

Status & Outlook

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, SME and Corporate customer deposits emanating from mainland Britain and Northern Ireland.

Mitigation

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

Financial risk

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

Status & Outlook

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 for AIB UK.

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

Mitigation

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

Model risk

The risk of adverse consequences from a financial, customer or reputational damage perspective as a consequence of gaps in model oversight or as a result of the suboptimal development, implementation or use of models.

Status & Outlook

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

The unique nature of COVID-19 means that models sensitive to macroeconomic factors have required adjustment and governed judgement, however, with more normalisation of the external environment, the number of post model adjustments have reduced. Nevertheless, any further volatility could heighten the risk.

Mitigation

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

Operational risk

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

Status & Outlook

This risk encompasses a broad range of sub-risks.

The Bank has continued to adapt operational processes in light of the COVID-19 pandemic following various initiatives introduced in 2020 around social distancing, remote working, increased use of digital processes and additional measures to support impacted customers.

Further change in 2021 included addressing multiple regulatory initiatives as well as executing the new three year strategy, which included a significant transformation programme. As with any period of change, operational risk becomes heightened, and monitoring and control activities are in place to manage these risks.

In line with all areas of industry, AIB UK is constantly facing hostile and increasingly innovative cyber attempts to access the Bank's systems, however, to date has successfully defended against such attacks.

Outsourcing to the Parent and external providers allows AIB UK to benefit from scale and expertise, but as a result exposes the Bank to third party management risk.

Both AIB UK and third party premises may be subject to more extreme weather events whose frequency and intensity may be exacerbated by climate change. From a climate change transitional risk perspective, the Bank is seeking to understand emission generation, including scope 3 emissions from suppliers, and developing products and propositions to support customer transition to a greener economy.

Mitigation

- The Operational Risk Management framework is supported by a comprehensive suite of policies and procedures, together with assurance to test effectiveness of controls. In addition, AIB UK has an ongoing systems and controls enhancement programme that continues to see improvements implemented across various areas and functions.
- Throughout COVID-19, operational resilience has been demonstrated with continued provision of services since the onset. Operational contingency plans are maintained and work is ongoing to enhance the Bank’s operational resilience, aligned to new regulatory requirements.
- The Bank operates a change policy that sets out the roles and responsibilities of change management, of delivery and execution across the three lines of defence, and of robust governance structures to provide oversight to the associated risks.
- The new strategy included implementation of a new operating model towards the end of 2021, which seeks to increase efficiencies and consistency in operational processes and to enhance the customer journey.
- The Bank continues to invest significantly in its technology and cyber defences to improve its capabilities to protect and respond to cyber threats.
- AIB UK assesses and monitors its dependence on third party providers for the provision of its various systems and services on an ongoing basis.
- The Bank has developed an extreme weather scenario for the operational risk capital assessment, as well as operational considerations to assess third party supplier and products and propositions against the sustainability agenda.

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.

Status & Outlook

While the financial sector continues to experience a high pace, volume and complexity of regulation change, there have been no instances of material non-compliance by AIB UK with regulatory deadlines. The UK Government is consulting on a new regulatory framework following the UK's withdrawal from the EU and will require close management with the Parent in view of the risk of widening regulatory divergence between the UK and EU.

The level and sophistication of fraud continues to increase, particularly with the increasing use of digital products, the ability for customers to make near-instantaneous payments online and with criminals exploiting social engineering techniques. In addition, AIB UK is a participant in the British Business Bank government backed loans schemes including the BBLS and CBILS. There has been concern raised within the National Audit Office around the expected levels of fraud within these schemes at an industry level. AIB UK provided finance under these schemes to existing customers only and applied our normal fraud controls. The identified levels of fraud are considered to be low presently but may increase as more payments become due.

Money laundering and terrorist financing remains a key threat at an industry level and is the subject of ongoing focus by UK regulators. AIB UK undertakes regular risk assessments in this area and calibrates its controls to address the threat level.

Mitigation

- AIB UK conducts ongoing horizon scanning to identify changes in regulatory and legal requirements which includes addressing the UK regulator's key priorities related to managing the financial risks associated with climate change.
- Developments in the future relationship between the UK and EU will 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 has continued to increase its awareness messaging and enhance monitoring and controls to detect and prevent fraud including membership of Cifas, involvement in the customer awareness ‘Take Five to Stop Fraud’ campaign, and ongoing implementation of Strong Customer Authentication ('SCA') which enhances the security around making e-payments. AIB UK has invested in transaction monitoring technology designed to identify and prevent suspicious payments that may be fraudulent.
- The Bank will continue to monitor the BBLS and CBILS loan book and where potential fraud is identified we will communicate that to the British Business Bank and take all necessary steps for recovery.

Conduct risk

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

Status & Outlook

In 2021 and into 2022, AIB UK is implementing a strategy that will impact the Bank's customers, including exiting the GB SME market and closing a number of branches in Northern Ireland. This is also against a background of increasing authorised push payment frauds and forthcoming Consumer Duty requirements. The conduct risks arising from these have been closely managed and governed through the Bank's Conduct Committee.

Mitigation

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

People & Culture risk

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

Status & Outlook

The ability of AIB UK to deliver its strategy is dependent on the talents and efforts of skilled and diverse people. The Bank's people have continued to deliver for its customers throughout the pandemic and demonstrated resilience to the new ways of working whilst also going through a significant level of change.

The new three year strategy brings additional risks in relation to capability, engagement, workloads and priorities, in light of the workforce changes delivered in 2021 around the right sizing agenda and the introduction of the new operating model. This is also in context of a tight labour market. Monitoring and management of these challenges are a key focus for the Executives to ensure support and recognition of our people.

Mitigation

- The Bank is committed to investing in the continued personal development and progression of its people to build organisational capability and a high performing culture with sustained positive engagement levels. Connection and communication with our people are key Executive priorities, particularly as the Bank navigates through the organisational changes, and ensuring the right people are in the right roles, equipped with the requisite skills.
- The various initiatives introduced to support people and people leaders as part of the Bank's wellbeing programme during 2020 have been maintained, including promoting the right to disconnect as the Bank continues to move towards a hybrid ways of working model. Diversity & Inclusion also remains a key component of the Bank's culture programme, including monitoring of gender balance and raising awareness and encouraging support for international events.

Corporate governance report

Corporate governance arrangements and practices

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

Our governance arrangements include:

- a Board of Directors of sufficient size and expertise, the majority of whom are independent Non-Executive Directors;
- a Managing Director to whom the Board has delegated responsibility for the day-to-day running of the Bank;
- a strong and diverse Leadership Team ('UKLT');
- a clear organisational structure with well defined, transparent and consistent lines of responsibility;
- a well-documented and executed delegation of authority framework;
- a comprehensive and coherent suite of frameworks, policies, procedures and standards covering business and financial planning, corporate governance and risk management;
- effective structures and processes to identify, manage, monitor and report the risks to which the Bank is or might be exposed;
- adequate internal control mechanisms which are consistent with and promote sound and effective risk management; and
- strong and functionally independent internal and external audit functions.

The Company has adopted the Parent Group Subsidiary Governance Framework (‘Framework’) which covers the leadership, direction and control of the Parent Group. This Framework reflects 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 have failed to resolve, or where such contact is deemed to be inappropriate. The responsibilities of the Senior Independent Director (‘SID’) include Senior Manager Regime ('SMR') accountability for both Speak Up and the external whistleblowing hotline.

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. Robert Mulhall was the only Executive Director appointed to the Board as at 31 December 2021.

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 2021 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. Tom Foley was designated non-independent for the period of 13 September 2021 to 30 September 2021 due to this part of his term of office exceeding nine years.

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 approved Code of Conduct and Conflicts of Interest Policy 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 UK Group Code of Conduct and Conflicts of Interests Policy.

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

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

Induction, training and professional development

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

Management information pack

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

Board committees

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

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

Board and committee meeting attendance

	Board	Audit Committee	Risk Committee	Nomination Committee
Number of meetings held	*11*	*7*	*9*	*12*
Board Chair				
Peter Spratt*	11/11	-	-	10/10**
Non-Executive Directors				
Graham Buckland*	10/11	-	9/9	12/12
Cathy Bryce *(resigned 31 May 2021)*	4/4	-	-	-
Geraldine Casey *(appointed 19 May 2021)*	6/8	-	-	-
Tracy Dunley-Owen*	9/11	7/7	9/9	-
William Fall* *(appointed 1 October 2021)*	3/3	-	-	-
Tom Foley *(resigned 30 September 2021)*	8/8	-	-	-
Joe Higgins* *(appointed 12 October 2021)*	3/3	-	-	-
Paul Horner*	10/11	7/7	9/9	-
Shelley Malton*	10/11	-	-	10/12
Helen Normoyle *(appointed 1 July 2021)*	5/6	-	-	-
Roger Perkin*	9/11	7/7	9/9	-
Executive Directors				
Robert Mulhall	10/11	-	-	-

*Independent

**Mr Spratt was only eligible to attend 10 Nomination Committee meetings due to a conflict of interest in relation to the consideration of an appointment of a Chair of the Board.*

A total of 11 Board meetings were held during 2021 (2020:11). The Non-Executive Directors also met on several occasions in the absence of the Executive Directors. The Board established a Chairman's Committee in 2021 with authority to consider proposals related to the strategic implementation programme, three Chairman's Committee meetings were held in the year.

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

Board Audit Committee

7 meetings during 2021 (2020:9)

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

Responsibilities

The committee is responsible for:

- the quality and integrity of Bank's accounting policies, disclosure practices, financial and narrative reports;
- the independence and performance of the external auditor;
- the independence and performance of the Parent Group internal audit function as applied to AIB UK through an outsourced arrangement;
- the adequacy and performance of systems of internal control and the management of financial and non-financial risks;
- ensuring that the annual report and financial statements present a fair, balanced and understandable assessment of the Bank's position and prospects;
- liquidity risk; and
- the embedding and maintenance of a supportive culture in relation to the management of financial risk across the Company.

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 2021

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

- reviewed the Bank's annual financial statements prior to approval by the Board (including the Bank's accounting policies and practices; reports on compliance and effectiveness of internal controls);
- with input from the external auditor, satisfied itself that management's estimates, judgements and disclosures were appropriate and in compliance with financial reporting standards (a detailed analysis of the significant matters is provided in the critical accounting judgements and estimates);
- reviewed the scope of the external audit, and the findings, conclusions and recommendations of the external auditor;
- satisfied itself through regular reports from the Group Internal Audit function, the CFO, the external auditor and the Head of Compliance and Financial Crime Prevention that the system of internal controls was effective;
- considered the ongoing COVID-19 related issues and market impacts on expected credit losses, Grading and Staging Principles and implications for the application of IFRS 9 models, scenarios, weightings and Alternative Performance Measures;
- received regular updates from the Group Internal Audit function, in line with the Group Internal Audit plan. These included findings and actions in relation to the control environment and management awareness, and tracking progress to closure. It also reviewed a revised internal audit plan to maximise efficient use of resources;
- received regular updates and reports from the CFO on funding and liquidity.
- received regular updates to satisfy itself that the Bank was in compliance with all regulatory and compliance obligations and considered key developments and emerging issues, the operation of the Speak Up process, the Code of Conduct, and internal and external fraud reports;
- oversaw the relationship with the external auditor. Considered the auditors' terms of engagement, their independence and objectivity and approved the audit plan (including methodology and risk identification processes); considered the effectiveness and performance of the external auditor and the external audit process and concluded that it was satisfied with the external auditor's performance. It also approved the policy on non-audit fees paid to the Statutory Auditor;
- participated in the Parent Group process for the selection of a new external auditor. Following a competitive and transparent tender process, the Committee recommended to the Board the appointment of PwC as auditor, in 2023. This appointment will be subject to approval by the shareholder in due course. The Committee look forward to working with the current auditor, Deloitte and PwC on the smooth and effective transition of the audit of the 2023 year end;
- recommended the reduction in the issued share capital of the Company to the Board; and
- considered the financial implications for the implementation of the strategic plan including restructuring provisions and related impairments.

Board Risk Committee

9 meetings during 2021 (2020:8)

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

Responsibilities

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

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

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

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

Activities in 2021

Effective 1 January 2021, Peter Spratt resigned as a member of the Committee and Tracy Dunley-Owen was appointed. The following, while not intended to be exhaustive, is a summary of the key items considered, reviewed and/or approved or recommended by the committee during the year:

- reports from the CRO which provided an overview of risk profile and material risks including business, people, culture, cyber, liquidity and funding, capital adequacy, credit, operational, market, regulatory, business, conduct related mitigants and continued COVID-19 impacts;
- Risk Appetite Statement recommendation to the Board for approval, including updates relating to the Company's new 2021-2023 strategy;
- systems and controls reports which provided an update on the programme consisting of 12 risk and control management processes and projects to achieve target state maturity;
- risk frameworks and policies relating to credit, capital management, financial, market and conduct risks;
- capital, funding and liquidity policies and planning including consideration of the AIB UK Group ICAAP and ILAAP and related stress test scenarios;
- recovery planning, business continuity management and resilience;
- periodic reporting on model oversight, providing an overview of UK credit models and a summary of performance;
- the efficacy of management oversight and control, including anti-money laundering and financial sanction policies, operational risk events and potential risks, credit risk performance and trends, operating model for material outsourcing, regulatory development and embeddedness of the SMR;
- review of the Modern Slavery Act statement and recommendation for Board approval;
- the Bank’s risk management infrastructure including actions taken to strengthen its risk management governance, people skills and system capabilities, and specifically a deep dive on data risk and periodic reports on data; and
- thematic reviews of business sectors, including assessing the longer term impacts on sectors affected by the COVID-19 pandemic.

Nomination Committee

12 meetings during 2021 (2020:6)

Graham Buckland *(Chair from 1 December 2021)*
Peter Spratt *(Chair until 1 December 2021)*
Shelley Malton

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 2021

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

- oversaw the replacement of Cathy Bryce by Geraldine Casey as a Non-Executive Director and the appointment of Helen Normoyle as a Non-Executive Director, nominated by the Parent;
- endorsed the appointment of Janet McConkey as CFO, replacing Anna Savage;
- managed the search process for a Chair of the Board and an independent Non-Executive Director which resulted in the recommendation of the appointment of Joe Higgins and William Fall as Non-Executive Directors.
- considered and approved the induction plans for new Non-Executive Directors;
- considered and approved a new board skills matrix and identified areas of emerging challenges;
- reviewed the membership of Board committees, and did not propose any changes;
- reviewed and recommended the approval of an updated Board Governance Manual;
- oversaw the internal board effectiveness evaluation process, reviewed the report and recommended an action plan to the Board to address areas identified for enhancement; and,
- reviewed the Board Diversity Policy. The Committee remains committed to encouraging diversity and agreed updated Board Diversity targets. At 31 December 2021, female representation on the Board was 36%.

Board of Directors






	Peter Spratt	Graham Buckland	Geraldine Casey	Tracy Dunley-Owen	William Fall	Joe Higgins
	Independent Non-Executive Chair	Senior Independent Director & Deputy Chair	Non-Executive Director	Independent Non-Executive Director and Chair of the Technology & Operational Resilience Advisory Committee	Independent Non-Executive Director	Independent Non-Executive Director
Appointed to the Board	March 2015 (Chair - March 2016)	March 2017	May 2021	April 2020	October 2021	October 2021
Key areas of expertise	Finance, Audit, Business recovery and restructuring	Corporate Banking	Human Resources	Risk, Audit, Financial Services, Technology and Transformation	Investment and Retail banking, Corporate Finance, Sales and Trading	Northern Ireland Retail Banking
Skills and experience	Peter was seconded to AIB plc from PricewaterhouseCoopers ('PwC') in 2011, acting as a member of AIB plc's executive team to establish and manage the Non-Core Unit. His responsibilities were expanded in 2012 to manage the newly created Financial Solutions Group. Peter then served as Interim Chief Executive Officer of AIB UK from January to June 2013. A Chartered Accountant, Peter joined PwC in 1983, becoming a Partner in 1992. Peter has extensive experience advising on the restructuring of medium and large companies and banks in multiple countries. Peter's roles in PwC included Global Leader of PwC's Business Recovery Services and Leader of BRS' Financial Services specialism. Peter retired from PwC in June 2015.	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 he was a Managing Director in Corporate Banking where his roles included Head of London Region and where he had responsibility for corporate clients through sector specialist industry teams and also with responsibility for Barclays' large corporate clients in the UK.	Geraldine joined the Parent Group in January 2020 from her most recent role as Director of People, Communications and IT at Tesco Ireland. She was also a member of the Executive Board of Tesco for five years prior to joining the Parent Group and has a wealth of experience working closely with internal and external stakeholders. Geraldine has led large teams through culture, process and organisational change. She is an accomplished business leader, having run Tesco's retail operations at national level before taking up her current role. Geraldine is a business graduate of University College Cork.	Tracy has over 20 years' experience in global financial services and is currently an independent non-executive director and committee chair for a portfolio of companies. She has held senior executive finance roles in addition to board, audit and risk committee responsibilities at various companies within the Old Mutual plc group, Guardian Financial Services group and a division of Swiss Reinsurance Company Limited.	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. He 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. He stepped down from Chair of MUFG Europe, the major subsidiary of Japan's largest bank, in 2021. Since 2013, he has been on the Board of the charity Historic Royal Palaces.	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 Vice Chair of Choice Housing Ireland where he is also Chair of the Finance, and Nominations and Governance Committees; Trustee of Bowel Cancer UK and member of their Finance and Risk Committee.
Key external appointments	Windsor Theatre Limited	Granard EOT Limited	None	Simplyhealth Group Limited, Sun Life Assurance Company of Canada (UK) Limited, Euroclear UK & International Limited	Ambac Assurance UK Limited Citigroup Global Markets Limited	Choice Housing Ireland Limited Bowel Cancer UK Limited

				
Paul Horner	**Shelley Malton**	**Helen Normoyle**	**Roger Perkin**	**Robert Mulhall**
Independent Non-Executive Director and Chair of the Risk Committee	Independent Non-Executive Director	Non-Executive Director	Independent Non-Executive Director and Chair of Audit Committee	Executive Director and Managing Director
Appointed to the Board				
February 2020	December 2018	July 2021	March 2017	March 2020
Key areas of expertise				
Risk, General Management in Retail, Commercial, Investment and Private Banking	Operations, customer experience, people leadership, technology, outsourcing	Marketing	Finance, Audit, Banking Regulation and Risk	Consumer Banking, Executive Management, Business Strategy
Skills and experience				
Paul has held a number of senior roles with Barclays and RBS including: RBS Chief Risk Officer for European Consumer Finance based in Dusseldorf; Chief Risk Officer for ABN AMRO's EMEA Commercial and Consumer business; and subsequently for RBS' international businesses during a large restructuring programme. He was appointed Chief Risk Officer for Coutts International, based in Zurich, in 2012 until the sale of the business in March 2015, when Paul was appointed Chief Executive Officer to lead the divestment of the business. Paul was a Non-Executive Director of Coutts International from 2018-2021. He was also Director of Risk at Ulster Bank. He left RBS in 2019.	Shelley is currently Director of Service, Operations & Digital at Vodafone. With over 25 years of experience in the financial services industry, she has led major transformations at both Experian and Barclays, including customer experience, outsourcing, automation and operations transformations. Previous roles include Managing Director for Service at Experian and Chief Operations and Technology Officer for Barclaycard Europe. Shelley holds an Associateship of the Chartered Institute of Bankers and is a Graduate of the Chartered Institute of Personnel and Development.	Helen is a highly experienced marketeer with over 30 years' experience in consumer marketing and market research across a range of sectors and geographies. A graduate of the University of Limerick, she started her career with Infratest+GfK, based in Germany. From there she moved to Motorola, where she held a range of roles including Director of Global Consumer Insights and Product Marketing and Director of Marketing. After working in broadcast and telecoms regulation at Ofcom as the Director of Market Research, she held Marketing Director and Chief Marketing Officer roles at the BBC, DFS, Countrywide and Boots, where she was also the Chair and Director of the Boots Charitable Trust. Helen is Co-founder and Executive Director of My Menopause Centre, and Non-Executive Director of Thame and London Ltd.	A Chartered Accountant by profession, Roger joined Arthur Young (subsequently Ernst & Young) in 1969, where he became a Partner in 1979 and remained in role until retirement in 2009. Roger previously held Board positions at Nationwide Building Society, Friends Life Holdings Ltd., Evolution Group plc., TP ICAP plc and Electra Private Equity plc.	Robert was appointed as Managing Director in March 2020, prior to which he was the Parent Group's Managing Director of Consumer Banking. Robert's career in the Parent Group has spanned almost 25 years, covering a variety of roles up to senior executive management level. Outside of the Parent Group, he held the position of Managing Director, Distribution & Marketing Consulting, and Financial Services with Accenture in North America from 2013 to 2015.
Key external appointments				
Arion Bank LHV UK Limited	None	Ripley Trading Limited My Menopause Centre Limited Thame and London Limited	Hargreaves Lansdown plc Charities Aid Foundation Chiddingstone Castle	Irish Banking Culture Board

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 2021. A Statement of Directors' responsibilities is shown on page 55.

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

Specifically, an indication of likely future developments is given in the Strategic report on pages 4-11 and 23-25, capital management on pages 20-21, financial instruments in notes 38 and 39 and events after the reporting date in note 45.

Results

Our profit after tax for the year ended 31 December 2021 was £170m (2019: £84m loss) and was calculated as shown in the consolidated income statement on page 66.

Dividends

We did not pay a dividend during the year ended 31 December 2021 (2020: £nil).

Political donations

The Company did not make any political donations, give any money for political purposes, nor incur any political expenditure during the year (2020: £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 30.

Foreign branches

The Company does not operate branches outside the UK.

Directors and Company Secretary

The composition of the Board, and the names of Directors as at 31 December 2021, is set out on page 49. The following Board changes occurred, with effect from the dates shown:

- Geraldine Casey was appointed as a Director on 19 May 2021;
- Cathy Bryce resigned as a Director on 31 May 2021;
- Helen Normoyle was appointed as a Director on 1 July 2021;
- Tom Foley resigned as a Director on 30 September 2021;
- William Fall was appointed as a Director on 1 October 2021;
- Joe Higgins was appointed as a Director on 12 October 2021;
- Elizabeth Hallissey resigned as the Company Secretary on 26 January 2022 and Adrian Kelly was appointed on 27 January 2022; and
- Janet McConkey was appointed as a Director on 31 January 2022.

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

Independent advice

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

Corporate governance statement

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

We consider the 2021 annual financial report to be fair, balanced and understandable and to give the necessary information to allow our shareholders to assess the Bank's performance, business models and strategy.

Going concern

We have considered whether a going concern basis for preparing the financial statements for the year ended 31 December 2021 is appropriate and decided that it is. The reasons for this decision are set out in the 'Going Concern' section of note 1.3.

Viability statement

We have considered the viability of AIB UK Group, taking into account the current position and the principal risks that it faces. We performed our assessment over the next three years given it is the period covered by the rolling strategic plan. This plan is refreshed annually and is subject to stress testing which considers the impact of possible but extreme examples of the principal risks and uncertainties facing AIB UK Group, including a potential severe economic downturn as the result of the COVID-19 and Brexit. While appropriate actions are being taken to mitigate the risks that could potentially arise, there is still uncertainty as to the ongoing impact of COVID-19 and Brexit on the economy and, therefore, it is not possible for us to predict the impact of all of the potential outcomes on AIB UK Group.

We have also considered the current financial performance, funding, liquidity and capital management of AIB UK Group, as set out in the Financial Review on page 12, and the governance and oversight through which AIB UK manages and seeks where possible to reduce its risks as described on pages 34 to 36. Finally, we performed a detailed review of all principal risks facing AIB UK Group as part of the MRA process, including those that would threaten the business operations, governance and internal control systems. The details of this are on pages 37 to 42.

While we acknowledge that ongoing operations of AIB UK Group are reliant on support from the Parent Group as a service provider and the additional reliance on funding from the Parent Group forecast from 2023 under the new strategy for AIB UK, we believe, based on our assessment, that taking into account AIB UK Group's current position, and subject to the identified principal risks, AIB UK Group will be able to continue in operation and meet its liabilities as they fall due over the three year period.

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

Internal controls

Board governance and controls

We are responsible for the Bank's system of internal controls and for reviewing its effectiveness. A strong system of internal controls contributes to safeguarding the Bank's assets. However, this system is designed to manage, rather than remove, the risk of failure to achieve business objectives and only provides reasonable and not complete protection against material mis-statement 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 ExCo 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 currently has the statutory power to issue bank notes as local currency in Northern Ireland (it does this under the name 'First Trust Bank'). In February 2019 the Bank announced its intention to cease doing so. First Trust Bank banknotes will remain legal currency until midnight 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. We expect the level of regulatory change to remain high in 2022.

Legislative changes

During 2021, the UK has continued to remain aligned to existing EU regulation. The EU Data Protection adequacy decision made in June is important in ensuring free flow of personal data between the EU and the UK. Moving forward we are likely to see regulatory divergence and the Bank remains well placed to identify and implement any required changes.

Regulatory changes to enhance competition

Following the Competition and Markets Authority Retail Banking Market Investigation Order, we are one of nine banks charged with designing and implementing an Open Banking Framework for the UK though the Open Banking Implementation Entity. The Open Banking infrastructure has been built and SCA introduced to online banking to better protect customers from fraud. SCA will be extended to e-commerce transactions in the UK on 14 March 2022.

The Bank is well progressed in arranging for customers to move from LIBOR interest rates to a risk free alternative rate, with LIBOR no longer available for use as a benchmark after 31 December 2021.

Financial crime prevention

The regulatory focus on the prevention of financial crime remains strong. The level and sophistication of fraud continues to increase, particularly with the increasing use of digital products and the increased execution of payments online. 2022 will see the introduction of SCA to all e-commerce transactions 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 Risk 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 plans to publish new Consumer Duty requirements by 31 July 2022. Consumer Duty will set clearer, and higher standards for a firm's culture and behaviours, introducing a new Consumer Principle, rules 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 26. 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 people and culture, including engagement. Culture and engagement have been discussed and monitored by the Board during the implementation of the strategy in 2021, which included the re-organisation of the business. The MI received by the Board at each meeting includes updates on talent, culture, wellbeing and inclusion.

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

Directors' indemnities

The Company has granted indemnities to each of its Directors and made qualifying third party indemnity provisions (as defined by Section 234 of the Companies Act 2006) for our Directors. These were in place at 31 December 2021.

Independent auditor and audit information

Deloitte LLP, Statutory Auditors, were appointed as our auditor and those of our Parent on 5 July 2013. Deloitte were re-appointed as auditor of the Company at the last AGM held on 14 May 2021 and shall hold office until the conclusion of the next AGM of the Company pursuant to Section 491 of the Companies Act 2006. Their continued appointment will be proposed to the shareholder for approval at the next AGM.

Deloitte LLP will step down as auditor following the conclusion of the 2022 financial year end process, having at that point served as statutory auditor for the maximum legally permitted unbroken tenure in office as AIB UK's statutory auditor of ten years.

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

Robert Mulhall

Robert Mulhall
Managing Director

2 March 2022

Statement of Directors' responsibilities

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

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

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

In preparing these financial statements, the Directors are required to:
– select suitable accounting policies and then apply them consistently;
– make judgements and estimates that are reasonable and prudent;
– state that the financial statements comply with IFRSs as adopted by the UK; and
– prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

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

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

Responsibility statement

Each of the Directors whose names and functions are listed on pages 49 to 50 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 2 March 2022 and is signed on its behalf by:

Robert Mulhall

Robert Mulhall
Managing Director

2 March 2022

Independent Auditor's report

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

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of AIB Group (UK) p.l.c. (the ‘parent company’) and its subsidiaries (the ‘group’) give a true and fair view of the state of the group’s and of the parent company’s affairs as at 31 December 2021 and of the group’s profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated and parent company statements of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company statements of cash flows; and
- the related notes 1 to 46.

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

2. Basis for opinion

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

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

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

3. Summary of our audit approach

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

4. Conclusions relating to going concern

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

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

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

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

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Loan loss provisioning

Key audit matter description	As detailed in the summary of critical accounting judgements and estimates in note 2 and the credit risk disclosures in note 21, the identification of "criticised", "vulnerable" and credit-impaired loans, and the estimation of expected credit losses ("ECL") in accordance with IFRS 9 is inherently uncertain and requires significant management judgement. As a result of the continued uncertainty in the economic environment the increased risk of the associated judgements and level of estimation uncertainty has remained elevated in the current year. We have determined that there is a risk of error in, or manipulation of, this balance. At 31 December 2021, the group reported £201m (2020: £245m) of ECL on total gross loans to customers of £6,399m (2020: £7,102m) resulting in an ECL coverage of 3.14% (2020: 3.45%). The most significant judgements in respect of the ECL include: – the identification of significant increases in credit risk ("SICR") for the Corporate lending portfolio; – the valuation of collateral for Stage 1 and 2 Corporate connections with individually material exposures, as well as the valuation of collateral and other significant cash flows used in the estimation of ECL for material, individually assessed, Stage 3 Corporate loans; – the valuation of residential properties that are held as collateral for Stage 3 mortgages, including consideration of the "forced sale collateral haircut" and "collateral volatility" assumptions used in the ECL model; and – the completeness of post-model adjustments that are required to mitigate known model limitations, including those identified through the independent model validation process.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over ECL including: – controls that provide assurance over the identification of "criticised", "vulnerable" and credit-impaired loans and the valuation of collateral used in the estimation of ECL for Corporate connections; – controls over the on-going monitoring of ECL model performance, including independent model validation; and – the review and approval of model outputs and any post model adjustments that were subsequently applied to the modelled provision. In addition, we performed the following substantive procedures in relation to the significant judgements: – we assessed a sample of Stage 1 loans for indications of a SICR. The triggers that formed part of our assessment included those from internal group policies and the non-exhaustive factors as set out in IFRS 9; – for a sample of individually material loans in Stages 1 and 2, we assessed the existence and rights of the collateral held and assessed the accuracy of the valuation; – for a sample of individually assessed Stage 3 loans, we reviewed and challenged the value and timing of the assumed cash flows and any associated collateral valuations used in determining the ECL, including assessment of the accuracy of historic ECL estimations compared to actual losses; and – with involvement of Deloitte's credit specialists, we considered and challenged the rationale for and estimation of post-model adjustments in relation to known model limitations. In addition to detailed testing of the post model adjustments, we performed a "stand back" test to assess the appropriateness of the total ECL after the application of post model adjustments.
Key observations	From our testing of the loan loss provision balance we are satisfied that the approach is compliant with IFRS 9 and, whilst we observed both conservative and optimistic elements, we concluded that the ECL balance is reasonable.

5.2 Appropriate measurement of the deferred tax asset

Key audit matter description	As detailed in the summary of critical accounting judgements and estimates in note 2 and the deferred tax disclosure in note 27, management have recognised a deferred tax asset ("DTA") of £148m (2020: £53m), predominantly as a result of significant unutilised tax losses suffered between 2009 and 2012. Management use a two-year detailed forecast from the business plan for the estimation of the DTA reflecting increased uncertainty in forecasting growth over the medium term given the early stage of implementation of the new strategy. The forecast 2023 profits are then extrapolated for the remaining recoverable period with no growth. Given the inherent uncertainty in the accuracy of forecasting future results, particularly given continued economic uncertainty as a result of COVID-19, significant management judgement is required to determine whether future taxable profits are probable ("more likely than not") to utilise the carried forward tax losses. Additionally, significant estimation is required in determining the level of future profitability, with consideration of historical operating results, economic trends, the ability of management to execute the strategy and achieve expected profit growth and the possibility of idiosyncratic or market-wide events that significantly reduce, or eliminate, profits for a period of time. Furthermore, as a result of current tax legislation, the level of profits that banks can offset each year against the majority of brought forward losses is restricted to 25 per cent and, as a result, it would take 63 years to utilise these losses in full. IAS 12 states that management should recognise a DTA for as many years as they believe they can reliably estimate future taxable profits. When assessing how many years future taxable profits can be reliably estimated, management have considered expected future activities, specifically, the AIB UK Group's new strategy and the Parent Group's affirmation of the UK operations as a strategic priority. Consequently, given the uncertainties in forecasting over an extended period of time, management have determined that fifteen years is a reasonable estimate of how many years they can sufficiently reliably forecast profits and have restricted recognition to the amount projected over this period ("recognition period"). There is a risk of material misstatement that the group will not generate sufficient taxable profits to utilise the tax relief provided by the deferred tax asset. This is focused on two key judgements: – the ability to generate future profits through the continued growth of profit generating assets (predominantly the loan book); and – the appropriateness of the 15-year recognition period based on these profit projections.

How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant controls over the production, and review, of the deferred tax asset calculation, including the projection of balance sheet (loan book) growth and taxable profits included in the business plan, the determination of growth rates used to extrapolate profits beyond the business plan and the determination of the recognition period. With consideration to the underlying economic assumptions, we assessed whether forecast taxable profits were appropriate by: – assessing governance over the production of the business plan by obtaining an understanding of relevant controls in the forecasting process; – assessing the historical accuracy of management's forecasts in the business plan by comparing forecasts from 2015 onwards to actual results; – evaluating the achievability of management's balance sheet (loan book) growth projections within their detailed business plan; and – challenging the reasonableness of forecasts beyond the business plan in light of the new strategy and current economic environment, by comparing the growth rates used by management to economic growth rates and historic operating profits. We assessed the evidence provided by management to support the fifteen year recognition period, considering the following areas: – expected future activities, with consideration of the ongoing implementation of the Bank's new UK strategy and the Parent Group's recent affirmation of the UK operations as a strategic priority; and – the increased difficulty in forecasting in the continued uncertain economic environment due to COVID-19.
Key observations	Based on the results of our testing, we are satisfied that the judgements that management have taken in respect of the deferred tax asset are reasonable. Additionally, we are satisfied with management's conclusion to use a two-year detailed forecast from the business plan for the estimation of the DTA reflecting increased uncertainty in forecasting growth over the medium term given the early stage of implementation of the new strategy.

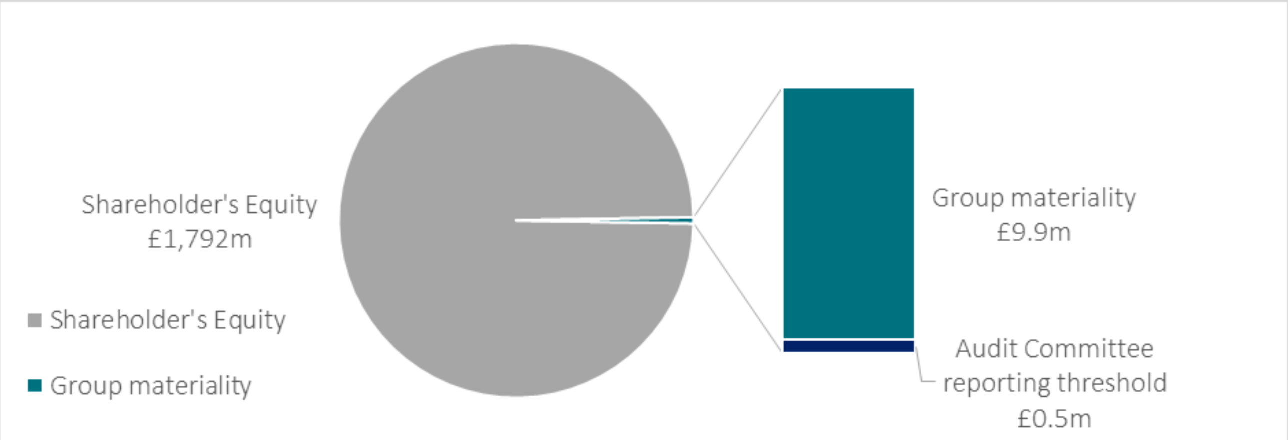
6. Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

	Group financial statements	Parent company financial statements
Materiality	£9.9m (2020: £9.2m)	£9.8m (2020: £9.1m)
Basis for determining materiality	0.55% of Shareholders' Equity (2020: 0.55%)	3% of Shareholders' Equity (2020: 3%) The parent company materiality equates to 3% of Shareholders' Equity, which is capped at 99% of group materiality (2020: 99%).
Rationale for the benchmark applied	We recognise that profit is an important measure in the financial statements. However, due to the fluctuation in this measure in recent years, we believe that the Shareholders' Equity balance currently remains a more appropriate benchmark as: – it provides a stable basis for materiality; – the level of the group's operations is directly linked to capital resources held; and – it represents one of the principal benchmarks used by investors, regulators and other stakeholders.	



6.2 Performance materiality

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

	Group financial statements	Parent company financial statements
Performance materiality	65% (2020: 65%) of group materiality	65% (2020: 65%) of company materiality
Basis and rationale for determining performance materiality	In determining performance materiality we considered our risk assessment, including the quality of the control environment and the business processes over which we were able to rely on controls and our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods. We also considered the continued impact of COVID-19 on our risk assessment.	

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £500,000 (2020: £460,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1 Identification and scoping of components

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

The audit was performed using the materiality levels set out above, for the group and the parent company only. The group audit covered 100% of total revenue, profit before tax, and total assets. The group and the parent company, its only material component, are treated by management as if it were a single aggregated set of financial information and were therefore audited directly by the group engagement team.

7.2 Our consideration of the control environment

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

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

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

7.3 Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the group's business and its financial statements. The group continues to develop its assessment of and response to the potential impacts of environmental, social and governance ("ESG") related risks, including climate change, as outlined in the Sustainability Report on page 26.

We held discussions with management and obtained the output from their climate risk heat-mapping exercise to understand the process for identifying climate-related risks, the consideration of mitigating actions and the impact on the group's financial statements.

We performed our own qualitative risk assessment of the potential impact of climate change on the group's account balances and classes of transactions.

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

7.4 Working with other auditors

Where processes relevant to the group audit are performed centrally in Dublin by Allied Irish Banks p.l.c. (the "Irish Parent"), these have been audited by Deloitte Ireland under the supervision of the group engagement team.

8. Other information

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

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of Directors

As explained more fully in the Statement of Directors’ responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the group’s and the parent company’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

11.1 Identifying and assessing potential risks related to irregularities

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

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

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

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that:

– had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included relevant provisions of the UK Companies Act, banking legislation, pensions legislation and tax legislation; and
– do not have a direct effect on the financial statements but compliance with which may be fundamental to the group’s ability to operate or to avoid a material penalty. These included the group’s regulatory capital, liquidity and conduct requirements.

11.2 Audit response to risks identified

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

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

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

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

Report on other legal and regulatory requirements

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

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

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

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

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

13.1 Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

13.2 Directors' remuneration

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

We have nothing to report in respect of this matter.

Independent Auditor's report

14. Other matters

14.1 Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 5 July 2013 to audit the financial statements for the year ending 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 9 years, covering the years ending 31 December 2013 to 31 December 2021.

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

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

15. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

Date: 2 March 2022

Consolidated income statement

for the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Interest income	3	**218**	246
Interest expense	4	**(20)**	(31)
Net interest income		**198**	215
Fee and commission income	5	**45**	45
Fee and commission expense	5	**(4)**	(4)
Net trading and other financial income/(expense)	6	**7**	(1)
Net gain on other financial assets measured at FVTPL	7	**6**	2
Net (loss)/gain on derecognition of financial assets measured at amortised cost	8	**(8)**	3
Other operating income	9	**—**	2
Other income		**46**	47
Total operating income		**244**	262
Operating expenses	10	**(141)**	(163)
Impairment and amortisation of intangible assets	24	**(8)**	(14)
Impairment and depreciation of property, plant and equipment	25	**(11)**	(12)
Total operating expenses		**(160)**	(189)
Operating profit before impairment losses and provisions		**84**	73
Net credit impairment writeback/(charge)	12	**8**	(178)
Operating profit/(loss) before taxation		**92**	(105)
Loss on disposal of property	25	**(3)**	—
Profit/(loss) before taxation		**89**	(105)
Income tax credit	13	**81**	21
Profit/(loss) for the period after taxation attributable to equity holders of AIB UK		**170**	(84)

All results are derived from continuing operations.

The notes on pages 71 to 162 form an integral part of these financial statements.

Statement of comprehensive income

for the year ended 31 December 2021

	Note	AIB UK Group 2021 £m	AIB UK Group 2020 £m	AIB UK 2021 £m	AIB UK 2020 £m
Profit/(loss) for the year		**170**	(84)	**172**	(74)
Other comprehensive income - continuing operations					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit asset/(liability), net of tax	36	**5**	(25)	**5**	(25)
Total items that will not be reclassified subsequently to profit or loss		**5**	(25)	**5**	(25)
Items that will be reclassified subsequently to profit or loss when specific conditions are met:					
Net change in cash flow hedges, net of tax	36	**(57)**	20	**(57)**	20
Total items that will be reclassified subsequently to profit or loss when specific conditions are met		**(57)**	20	**(57)**	20
Other comprehensive income for the year, net of tax		**(52)**	(5)	**(52)**	(5)
Total comprehensive income for the year		**118**	(89)	**120**	(79)
Attributable to:					
- Equity holders of AIB UK		**118**	(89)	**120**	(79)

The notes on pages 71 to 162 form an integral part of these financial statements.

Statement of financial position

as at 31 December 2021

		AIB UK Group		AIB UK	
		2021	2020	**2021**	2020
	Notes	**£m**	£m	**£m**	£m
Assets					
Cash and balances at central banks		**5,306**	4,541	**5,306**	4,541
Items in course of collection		**3**	4	**3**	4
Derivative financial instruments	16	**91**	181	**91**	181
Loans and advances to banks	17	**637**	583	**637**	583
Loans and advances to customers	18	**6,198**	6,857	**6,198**	6,857
Investment securities	22	**40**	34	**40**	34
Investments in group undertakings	23	**—**	—	**1**	1
Intangible assets	24	**21**	25	**21**	25
Property, plant and equipment	25	**31**	39	**31**	39
Other assets	26	**14**	15	**14**	14
Current taxation		**28**	32	**28**	32
Deferred tax assets	27	**148**	53	**148**	53
Prepayments and accrued income		**10**	4	**10**	4
Retirement benefit assets	28	**161**	142	**161**	142
Total assets		**12,688**	12,510	**12,689**	12,510
Liabilities					
Deposits by banks	29	**434**	410	**434**	410
Customer accounts	30	**10,088**	9,979	**10,098**	9,991
Derivative financial instruments	16	**128**	142	**128**	142
Lease liabilities	31	**17**	18	**17**	18
Deferred tax liabilities	27	**13**	15	**13**	15
Other liabilities	32	**174**	171	**174**	171
Accruals and deferred income		**8**	7	**8**	7
Provisions for liabilities and commitments	33	**34**	49	**33**	47
Secondary non-preferential debt	34	**—**	45	**—**	45
Total liabilities		**10,896**	10,836	**10,905**	10,846
Shareholders' equity					
Share capital	35	**2,384**	2,384	**2,384**	2,384
Reserves		**(22)**	35	**(23)**	34
Retained earnings		**(570)**	(745)	**(577)**	(754)
Total shareholders' equity		**1,792**	1,674	**1,784**	1,664
Total liabilities and equity		**12,688**	12,510	**12,689**	12,510

The Company reported a profit for the financial year ended 31 December 2021 of £172m (2020: loss of £74m).

The notes on pages 71 to 162 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 2 March 2022. They were signed on its behalf by:

Robert Mulhall
Managing Director
Company registration number: NI018800

Statement of changes in equity

for the year ended 31 December 2021

AIB UK Group	Notes	Share capital £m	Other reserves £m	Cash flow hedging reserve £m	Retained earnings £m	Total equity £m
		Attributable to equity holders of AIB UK				
At 1 January 2021		**2,384**	**2**	**33**	**(745)**	**1,674**
Total comprehensive income for the year						
Profit for the year		**—**	**—**	**—**	**170**	**170**
Other comprehensive income, net of tax	36	**—**	**—**	**(57)**	**5**	**(52)**
Total comprehensive income for the year		**—**	**—**	**(57)**	**175**	**118**
At 31 December 2021		**2,384**	**2**	**(24)**	**(570)**	**1,792**
At 1 January 2020		2,384	2	13	(636)	1,763
Total comprehensive income for the year						
Loss for the year		—	—	—	(84)	(84)
Other comprehensive income, net of tax	36	—	—	20	(25)	(5)
Total comprehensive income for the year		—	—	20	(109)	(89)
At 31 December 2020		2,384	2	33	(745)	1,674

AIB UK	Notes	Share capital £m	Other reserves £m	Cash flow hedging reserve £m	Retained earnings £m	Total equity £m
		Attributable to equity holders of AIB UK				
At 1 January 2021		**2,384**	**1**	**33**	**(754)**	**1,664**
Total comprehensive income for the year						
Profit for the year		**—**	**—**	**—**	**172**	**172**
Other comprehensive income, net of tax	36	**—**	**—**	**(57)**	**5**	**(52)**
Total comprehensive income for the year		**—**	**—**	**(57)**	**177**	**120**
At 31 December 2021		**2,384**	**1**	**(24)**	**(577)**	**1,784**
At 1 January 2020		2,384	1	13	(655)	1,743
Total comprehensive income for the year						
Loss for the year		—	—	—	(74)	(74)
Other comprehensive income, net of tax	36	—	—	20	(25)	(5)
Total comprehensive income for the year		—	—	20	(99)	(79)
At 31 December 2020		2,384	1	33	(754)	1,664

The notes on pages 71 to 162 form an integral part of these financial statements.

Statement of cash flows

for the year ended 31 December 2021

	Notes	AIB UK Group 2021 £m	AIB UK Group 2020 £m	AIB UK 2021 £m	AIB UK 2020 £m
Cash flows from operating activities					
Profit/(loss) before taxation		**89**	(105)	**91**	(95)
Adjustments for:					
Non-cash items	41	**27**	226	**24**	214
Net cash inflow from operating activities		**116**	121	**115**	119
Net (increase)/decrease in loans and advances to banks		**(73)**	76	**(73)**	76
Net decrease in loans and advances to customers		**679**	77	**679**	77
Net decrease in deposits by banks		**(32)**	(116)	**(32)**	(116)
Net increase in customer accounts	30	**109**	1,086	**107**	1,070
Net decrease/(increase) in derivative financial instruments	16	**2**	(3)	**2**	(3)
Net decrease in items in course of collection		**1**	1	**1**	1
Net decrease in notes in circulation	32	**(50)**	(51)	**(50)**	(51)
Net decrease in other assets		**—**	8	**—**	10
Net increase/(decrease) in other liabilities		**1**	(5)	**1**	(1)
Net cash inflow/(outflow) from operating assets and liabilities		**637**	1,073	**635**	1,063
Net cash inflow/(outflow) from operating activities before taxation		**753**	1,194	**750**	1,182
Taxation paid		**(3)**	(17)	**(3)**	(17)
Net cash inflow/(outflow) from operating activities		**750**	1,177	**747**	1,165
Cash flows from investing activities					
Additions to property, plant and equipment		**(7)**	(10)	**(7)**	(10)
Additions to intangible assets		**(4)**	(5)	**(4)**	(5)
Dividends received from subsidiary undertakings	23	**—**	—	**3**	12
Net cash outflow from investing activities		**(11)**	(15)	**(8)**	(3)
Cash flows from financing activities					
Repayment of secondary non-preferential debt	34	**(45)**	—	**(45)**	—
Repayment of lease liabilities		**(3)**	(3)	**(3)**	(3)
Net cash (outflow)/inflow from financing activities		**(48)**	(3)	**(48)**	(3)
Increase/(decrease) in cash and cash equivalents		**691**	1,159	**691**	1,159
Opening cash and cash equivalents		**4,662**	3,503	**4,662**	3,503
Closing cash and cash equivalents	41	**5,353**	4,662	**5,353**	4,662

The notes on pages 71 to 162 form an integral part of these financial statements.

Notes to the financial statements

Notes to the financial statements

1. Accounting policies

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

1.1 Reporting entity

AIB Group (UK) p.l.c. (company number NI018800) is a public company limited by shares incorporated in the United Kingdom with its registered office at 92 Ann Street, Belfast, BT1 3HH, Northern Ireland. The consolidated financial statements of AIB UK as at and for the year ended 31 December 2021 include AIB UK and its subsidiary undertakings, collectively referred to as 'AIB UK Group'. AIB UK Group provides banking and financial services to personal, commercial and corporate customers and has operations throughout the United Kingdom.

The Board of Directors approved these financial statements for issue on 2 March 2022.

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 46). 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' relate to AIB plc and its subsidiary undertakings, which includes AIB UK Group.

1.2 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and IFRSs as adopted by the UK and applicable for the year ended 31 December 2021. The accounting policies have been consistently applied by the AIB UK Group entities and are consistent with the previous year, unless otherwise described.

1.3 Basis of preparation

Functional and presentation currency

The financial statements are presented in pounds sterling, which is the functional currency of AIB UK Group and all of its subsidiaries. Except as otherwise indicated, financial information presented in sterling has been rounded to the nearest million.

Basis of measurement

The financial statements have been prepared under the historical cost basis, with the exception of the following assets and liabilities which are stated at their fair value: derivative financial instruments and financial instruments at fair value through profit or loss.

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

Use of judgements and estimates

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

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

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

Going concern

The financial statements for the year ended 31 December 2021 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting AIB UK Group, that it has the ability to continue in business for the period of assessment. The period of assessment used by the Directors is twelve months from the date of approval of these annual financial statements.

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

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

The Directors have also considered the principal risks and uncertainties, as part of the MRA process including the COVID-19 pandemic, which could materially affect AIB UK Group's future business performance and profitability and which are outlined on pages 36 to 42. The impact of COVID-19 and UK trading partnerships with the EU following the UK's exit from the EU could lead to a further deterioration in market and economic conditions in the UK and Ireland, which could adversely affect AIB UK Group's business, financial condition, results of operations and prospects.

The Directors believe AIB UK Group's capital resources are sufficient to ensure the Company is adequately capitalised both in a base and stress scenario. The Company's regulatory capital resources are outlined on page 20. AIB UK Group's liquidity is outlined on page 21 and the Directors are satisfied with the capital and liquidity position of AIB UK Group.

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

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

Adoption of new accounting standards

During the financial year to 31 December 2021, AIB UK Group applied for the first time certain standards and amendments which are effective for annual periods beginning on or after 1 January 2021 (unless otherwise stated). The following amendments to standards and interpretations had an insignificant impact on these annual financial statements:

– Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform - Phase 2.

Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate ('IBOR') is replaced with an alternative nearly risk-free interest rate ('RFR'). The amendments include a number of practical expedients. These amendments had no material impact on the consolidated financial statements of AIB UK Group.

1.4 Basis of consolidation

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

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

Subsidiary undertakings

A subsidiary undertaking is an investee controlled by AIB UK. AIB UK controls an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated in AIB UK Group's financial statements from the date on which control commences until the date that control ceases.

Notes to the financial statements

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

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

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

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

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

1.5 Foreign currency translation
Items included in the financial statements of each of AIB UK Group's entities are measured using their functional currency, being the currency of the primary economic environment in which the entity operates.

Transactions and balances
Foreign currency transactions are translated into the respective entity's functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-translation at period end exchange rates of the amortised cost of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Exchange differences on equities and similar non-monetary items held at fair value through profit or loss are reported as part of the fair value gain or loss.

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

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

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

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to:
– the gross carrying amount of the financial asset; or
– the amortised cost of the financial liability.

The application of the method has the effect of recognising income receivable and expense payable on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating the effective interest rate for financial instruments, other than credit impaired assets, AIB UK Group estimates cash flows (using projections based on its experience of customers' behaviour) considering all contractual terms of the financial instrument but excluding future credit losses. The calculation takes into account all fees, including those for any expected early redemption, and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

All costs associated with mortgage incentive schemes are included in the effective interest rate calculation. Fees and commissions payable to third parties in connection with lending arrangements, where these are direct and incremental costs related to the issue of a financial instrument, are included in interest income as part of the effective interest rate.

Interest income and expense presented in the consolidated income statement includes:
– Interest on financial assets and financial liabilities at amortised cost calculated using the effective interest rate method;
– Net interest income and expense on qualifying hedge derivatives designated as cash flow hedges or fair value hedges which are recognised in interest income or interest expense; and
– Interest income excluding dividends on equity shares.

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

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

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

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

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

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

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

1.8 Fee and commission income
The measurement and timing of recognition of fee and commission income is based on the core principles of IFRS 15 *Revenue from Contracts with Customers*.

The principles in IFRS 15 are applied using the following 5 step model:
– Identify the contract(s) with a customer;
– Identify the performance obligations in the contract;
– Determine the transaction price;
– Allocate the transaction price to the performance obligations in the contract; and
– Recognise revenue when or as AIB UK Group satisfies its performance obligations.

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

Loan syndication fees are recognised as revenue when the syndication has been completed and AIB UK Group has retained no part of the loan package for itself or retained a part at the same effective interest rate as applicable to the other participants.

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

Commitment fees, together with related direct costs, for loan facilities where drawdown is probable are deferred and recognised as an adjustment to the effective interest rate on the loan once drawn. Commitment fees in relation to facilities where drawdown is not probable are recognised over the term of the commitment on a straight line basis. Other credit related fees are recognised over time in line with the performance obligation except for arrangement fees where it is likely that the facility will be drawn down and which are included in the effective interest rate calculation.

AIB UK Group includes in the transaction price, some or all of an amount of variable consideration estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The majority of AIB UK Group’s fee and commission income arises from retail banking activities such as fee and commission income from customer accounts, FX and branch commissions, card income and lending-related commitment fees.

1.9 Net trading income

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

1.10 Employee benefits

Retirement benefit obligations

AIB UK Group provides employees with post-retirement benefits mainly in the form of pensions including defined benefit and defined contribution schemes. In addition, AIB UK Group contributes in accordance with UK legislation, to governmental and other schemes which have the characteristics of defined contribution schemes. The AIB UK defined benefit scheme is funded.

Full actuarial valuations of defined benefit schemes are undertaken every three years and are updated to reflect current conditions at each year-end reporting date.

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

Scheme liabilities are measured on an actuarial basis by estimating the amount of future benefit that employees have earned for their service in current and prior periods and discounting that benefit at the market yield on a high quality corporate bond of equivalent term and currency to the liability. The calculation is performed by a qualified actuary using the projected unit credit method. The difference between the fair value of the scheme assets and the present value of the defined benefit obligation at the year-end reporting date is recognised in the statement of financial position. If the scheme is in surplus it is shown as an asset and if the scheme is in deficit it is shown as a liability.

A surplus is only recognised as an asset to the extent that it is recoverable through a refund from the scheme or through reduced contributions in the future. Actuarial gains and losses are recognised immediately in other comprehensive income.

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 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 a defined benefit scheme when the plan amendment occurs, which is when AIB UK Group introduces or withdraws a defined benefit scheme, or changes the benefits payable under existing defined benefit schemes. A curtailment is recognised when a significant reduction in the number of employees covered by a defined benefit scheme occurs. Gains or losses on plan amendments and curtailments are recognised in the income statement as a past service cost.

The costs of managing the defined benefit scheme assets are deducted from the return on scheme assets. All costs of running the defined benefit schemes are recognised in profit or loss when they are incurred.

The cost of AIB UK Group's defined contribution schemes is charged to the income statement in the accounting period in which it is incurred. Any contributions unpaid at the year-end reporting date are included as a liability. AIB UK Group has no further obligation under these schemes once these contributions have been paid.

Short term employee benefits

Short term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period during which employees have provided services. Bonuses are recognised to the extent that AIB UK Group has a legal or constructive obligation to its employees that can be measured reliably. The cost of providing subsidised employee loans is charged within personnel expenses.

Termination benefits

Termination benefits are recognised as an expense at the earlier of when AIB UK Group can no longer withdraw the offer of those benefits and when AIB UK Group recognises costs for a restructuring under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which includes the payment of termination benefits.

For termination benefits payable as a result of an employee's decision to accept an offer of voluntary redundancy, which is not within the scope of IAS 37, AIB UK Group recognises the expense at the earlier of when the employee accepts the offer and when a restriction on AIB UK Group's ability to withdraw the offer takes effect.

1.11 Income tax, including deferred 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.

Notes to the financial statements

Income tax payable on profits, based on the applicable tax law, is recognised as an expense in the period in which the profits arise.

1.12 Financial assets

Recognition and initial measurement

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

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

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

Classification and subsequent measurement

On initial recognition, a financial asset is classified and subsequently measured at amortised cost, FVOCI or FVTPL.
The classification and subsequent measurement of financial assets depend on:
- AIB UK Group's business model for managing the asset; and
- The cash flow characteristics of the asset (for assets in a 'hold-to-collect' or 'hold-to-collect-and-sell' business model).

Based on these factors, AIB UK Group classifies its financial assets into one of the following categories:

– Amortised cost

Assets that have not been designated as at FVTPL, and are held within a 'hold-to-collect' business model whose objective is to hold assets to collect contractual cash flows, and whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI'). The carrying amount of these assets is calculated using the effective interest rate method and is adjusted on each measurement date by the expected credit loss allowance for each asset, with movements recognised in profit or loss.

– Fair value through other comprehensive income

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

– Fair value through profit or loss

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

In addition, AIB UK Group may irrevocably designate a financial asset as at FVTPL that otherwise meets the requirements to be measured at amortised cost or at FVOCI if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

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

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

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

Characteristics of the contractual cash flows

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

The SPPI test requires an assessment of the contractual terms and conditions to determine whether a financial asset contains any terms that could modify the timing or amount of contractual cash flows of the asset, to the extent that they could not be described as solely payments of principal and interest. In making this assessment, AIB UK Group considers:
- Features that modify the time value of money element of interest (e.g. tenor of the interest rate does not correspond with the frequency within which it resets);
- Terms providing for prepayment and extension;
- Leverage features;
- Contingent events that could change the amount and timing of cash flows;
- Terms that limit AIB UK Group's claim to cash flows from specified assets; and
- Contractually linked instruments.

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

Reclassifications

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

Investments in equity instruments

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

On initial recognition, AIB UK Group may elect to irrevocably designate at FVOCI, an equity instrument that is not held for trading. This election is made on an instrument-by-instrument basis. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss on derecognition of the equity instrument.

1.13 Financial liabilities

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

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

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

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

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

AIB UK Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. Any gain or loss on the extinguishment or remeasurement of a financial liability is recognised in profit or loss.

Issued financial instruments are classified as equity when AIB UK Group has no contractual obligation to transfer cash, or other financial assets or to issue a variable number of its own equity instruments. Incremental costs directly attributable to the issue of equity instruments are shown as a deduction from the proceeds of issue, net of tax.

1.14 Leases

Lessor

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

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

Lessee

Identifying a lease

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

Lease term

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

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

Recognition

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

Initial measurement of right of use asset

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

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

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

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

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

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

Lease payments exclude variable elements which are dependent on external factors, e.g. payments that are based on transaction volume/usage. Variable lease payments that are not included in the initial measurement of the lease liability are recognised directly in the income statement in the period in which the event or condition that triggers these payments occurs. VAT payments are not included in the calculation of the lease liability. These are expensed to the income statement when incurred and are included within 'General and administrative expenses'.

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

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

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

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

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

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

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

Notes to the financial statements

1.15 Determination of fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, in the most advantageous market to which AIB UK Group has access at that date. AIB UK Group considers the impact of non-performance risk when valuing its financial liabilities.

Financial instruments are initially recognised at fair value and, with the exception of financial assets at fair value through profit or loss, the initial carrying amount is adjusted for direct and incremental transaction costs. In the normal course of business, the fair value on initial recognition is the transaction price (fair value of consideration given or received). If AIB UK Group determines that the fair value at initial recognition differs from the transaction price and the fair value is determined by a quoted price in an active market for the same financial instrument, or by a valuation technique which uses only observable market inputs, the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss. If the fair value is calculated by a valuation technique that features significant market inputs that are not observable, the difference between the fair value at initial recognition and the transaction price is deferred.

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

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

Quoted prices in active markets

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

Where securities are traded on an exchange, the fair value is based on prices from the exchange. The market for debt securities largely operates on an ‘over-the-counter’ basis which means that there is not an official clearing or exchange price for these security instruments. Therefore, market makers and/or investment banks (‘contributors’) publish bid and ask levels which reflect an indicative price that they are prepared to buy and sell a particular security. AIB UK Group’s valuation policy requires that the prices used in determining the fair value of securities quoted in active markets must be sourced from established market makers and/or investment banks.

Valuation techniques

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

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

The valuation methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. The assumptions involved in these valuation techniques include:

- The likelihood and expected timing of future cash flows of the instrument. These cash flows are generally governed by the terms of the instrument, although management judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. In addition, future cash flows may also be sensitive to the occurrence of future events, including changes in market rates; and
- Selecting an appropriate discount rate for the instrument, based on the interest rate yield curves including the determination of an appropriate spread for the instrument over the risk-free rate. The spread is adjusted to take into account the specific credit risk profile of the exposure.

All adjustments in the calculation of the present value of future cash flows are based on factors market participants would take into account in pricing the financial instrument.

Certain financial instruments (both assets and liabilities) may be valued on the basis of valuation techniques that feature one or more significant market inputs that are not observable. When applying a valuation technique with unobservable data, estimates are made to reflect uncertainties in fair values resulting from a lack of market data, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable.

Inputs into valuations based on non-observable data are inherently uncertain because there is little or no current market data available from which to determine the price at which an orderly transaction between market participants would occur under current market conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments will be based on some market observable inputs even where the non-observable inputs are significant. All unobservable inputs used in valuation techniques reflect the assumptions market participants would use when fair valuing the financial instrument.

AIB UK Group tests the outputs of the valuation model to ensure that it reflects current market conditions. The calculation of fair value for any financial instrument may require adjustment of the quoted price or the valuation technique output to reflect the cost of credit risk and the liquidity of the market, where these are not embedded in underlying valuation techniques or prices used.

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

Transfers between levels of the fair value hierarchy

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

1.16 Sale and repurchase agreements (including securities borrowing and lending)

Financial assets may be lent or sold subject to a commitment to repurchase them (‘repos’). Such securities are retained on the statement of financial position when substantially all the risks and rewards of ownership remain with AIB UK Group. The liability to the counterparty is included separately on the statement of financial position.

Similarly, when securities are purchased subject to a commitment to resell (‘reverse repos’), or where AIB UK Group borrows securities, but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not usually included on the statement of financial position. The difference between the sale and repurchase price is accrued over the life of the agreements using the effective interest rate method. Securities lent to counterparties are also retained in the financial statements.

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

1.17 Derivatives and hedge accounting

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

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

Derivatives

Derivatives are measured initially at fair value on the date on which the derivative contract is entered into and subsequently remeasured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and from valuation techniques using discounted cash flow models and option pricing models as appropriate.

Derivatives are included in assets when their fair value is positive, and in liabilities when their fair value is negative, unless there is the legal ability and intention to settle an asset and liability on a net basis.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Profits or losses are only recognised on initial recognition of derivatives when there are observable current market transactions or valuation techniques that are based on observable market inputs.

Notes to the financial statements

Hedging

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

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

- hedges of the fair value of recognised assets or liabilities or firm commitments ('fair value hedge'); or
- hedges of the exposure to variability of cash flows attributable to a recognised asset or liability, or a highly probable forecasted transaction ('cash flow hedge').

When a financial instrument is designated as a hedge, AIB UK Group formally documents the relationship between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. AIB UK Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

AIB UK Group discontinues hedge accounting when:

a. it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
b. the derivative expires, or is sold, terminated, or exercised;
c. the hedged item matures or is sold or repaid; or
d. a forecast transaction is no longer deemed highly probable.

To the extent that the changes in the fair value of the hedging derivative differ from changes in the fair value of the hedged risk in the hedged item, or the cumulative change in the fair value of the hedging derivative differs from the cumulative change in the fair value of expected future cash flows of the hedged item, ineffectiveness arises. The amount of ineffectiveness, (taking into account the timing of the expected cash flows, where relevant) provided it is not so great as to disqualify the entire hedge for hedge accounting, is recorded in the income statement.

In certain circumstances, AIB UK Group may decide to cease hedge accounting even though the hedge relationship continues to be highly effective by no longer designating the financial instrument as a hedge.

AIB UK Group applies the IBOR reform Phase 1 reliefs to hedging relationships directly affected by IBOR reform during the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (RFR). A hedging relationship is affected if IBOR reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The reliefs require that for the purpose of determining whether a forecast transaction is highly probable, it is assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform.

IBOR reform Phase 1 requires that for hedging relationships affected by IBOR reform, AIB UK Group must assume that for the purpose of assessing expected future hedge effectiveness, the interest rate is not altered as a result of IBOR reform. Also, AIB UK Group is not required to discontinue the hedging relationship if the results of the assessment of retrospective hedge effectiveness fall outside the range of 80% to 125%, although any hedge ineffectiveness must be recognised in profit or loss, as normal.

The reliefs cease to apply once certain conditions are met. These include when the uncertainty arising from IBOR reform is no longer present with respect to the timing and amount of the benchmark-based cash flows of the hedged item, if the hedging relationship is discontinued or once amounts in the cash flow hedge reserve have been released.

Fair value hedge accounting

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

Cash flow hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is initially recognised directly in other comprehensive income and included in the cash flow hedging reserve in the statement of changes in equity. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in other comprehensive income from the time when the hedge was effective remains in equity and is reclassified to the income statement as a reclassification adjustment as the forecast transaction affects profit or loss.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income from the period when the hedge was effective is reclassified to the income statement.

Derivatives that do not qualify for hedge accounting

Certain derivative contracts entered into as economic hedges do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the income statement.

1.18 Derecognition

Financial assets

AIB UK Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the AIB UK Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Relevant costs incurred with the disposal of a financial asset are deducted in computing the gain or loss on disposal.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. However, the amount held in investment securities reserves is transferred to revenue reserves on derecognition. Any interest in transferred financial assets that qualify for derecognition, that is created or retained by AIB UK Group, is recognised as a separate asset or liability.

AIB UK Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which AIB UK Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the 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, the 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 expire.

Notes to the financial statements

1.19 Impairment of financial assets

AIB UK Group recognises loss allowances for expected credit losses ('ECLs') at each balance sheet date for the following financial instruments that are not measured at FVTPL:

– Financial assets at amortised cost;
– Financial assets at FVOCI (except for equity instruments);
– Financial guarantee contracts issued; and
– Loan commitments issued.

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

ECLs are the weighted average of credit losses. These are an estimate of credit losses over the life of a financial instrument.

When measuring ECLs, AIB UK Group takes into account:

– probability-weighted outcomes;
– the time value of money so that ECLs are discounted to the reporting date; and
– reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The amount of ECLs recognised as a loss allowance depends on the extent of the increase in credit risk since initial recognition. There are two measurement bases:

– 12-month ECLs (Stage 1), which applies to items where there has been no significant deterioration in credit quality since initial recognition; and
– Lifetime ECLs (Stages 2 and 3), which applies when a significant increase in credit risk has occurred on an individual or collective basis.

The 12 month ECL is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The lifetime ECL is the expected credit losses that result from all possible default events over the expected life of a financial instrument.

In the case of Stage 2, credit risk on the financial instrument has increased significantly since initial recognition but the instrument is not considered credit impaired. For a financial instrument in Stage 3, credit risk has increased significantly since initial recognition and the instrument is considered credit impaired.

Financial assets are allocated to stages dependent on credit risk relative to when the asset was originated.

A financial asset can only originate in either Stage 1 or as purchased or originated credit impaired ('POCI').

Collateral is reflected in AIB UK Group’s loss given default models (‘LGD’).

Purchased or originated credit impaired

POCI financial assets are those that are credit-impaired on initial recognition. AIB UK Group may originate a credit-impaired financial asset following a substantial modification of a distressed financial asset that resulted in derecognition of the original financial asset.

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

Modification and derecognition of financial assets

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

A modification refers to either:

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

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

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

Notes to the financial statements

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.

1.20 Collateral and netting

Collateral
AIB UK Group obtains collateral in respect of customer receivables where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives AIB UK Group a claim on these assets for both existing and future customer liabilities. The collateral is, in general, not recorded on the statement of financial position.

AIB UK Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as securities borrowing contracts and derivative contracts to reduce credit risk. Collateral pledged in the form of securities is not recorded on the statement of financial position. Collateral pledged in the form of cash is recorded on the statement of financial position with a corresponding liability. In the case of cash collateral, these amounts are assigned to deposits received from banks or other counterparties. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

In certain circumstances, AIB UK Group will pledge collateral in respect of its own liabilities or borrowings. Collateral pledged in the form of securities or loans and advances continues to be recorded on the statement of financial position. Collateral paid away in the form of cash is recorded in loans and advances to banks or customers. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

Netting

AIB UK Group enters into master netting agreements with counterparties, to ensure that if an event of default occurs, all amounts outstanding with those counterparties will be settled on a net basis.

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

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

1.21 Financial guarantees and loan commitment contracts

Financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities (‘facility guarantees’) and to other parties in connection with the performance of customers under obligations relating to contracts, advance payments made by other parties, tenders, retentions and the payment of import duties. In its normal course of business, AIB UK Group issues financial guarantees to other subsidiaries of the Parent.

A loan commitment is a contract with a borrower to provide a loan or credit on specified terms at a future date. The contract may or may not be cancelled unconditionally at any time without notice depending on the terms of the contract.

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. Subsequently, AIB UK Group applies the impairment methodology of IFRS 9 and calculates an ECL allowance for financial guarantees and loan commitment contracts that are not measured at FVTPL. The origination date for such contracts is the date when the contracts become irrevocable. The credit risk at this date is used to determine if a significant increase in credit risk has subsequently occurred.

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

1.22 Property, plant and equipment

Property, plant and equipment are stated at cost, or deemed cost, less accumulated depreciation and provisions for impairment, if any. Additions and subsequent expenditures are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the asset. No depreciation is provided on freehold land. Property, plant and equipment are depreciated on a straight line basis over their estimated useful economic lives. Depreciation is calculated based on the gross carrying amount, less the estimated residual value at the end of the assets’ economic lives.

AIB UK Group uses the following useful lives when calculating depreciation:

Freehold buildings and long-leasehold property	50 years
Short leasehold property	life of lease, up to 50 years
Costs of adaptation of freehold and leasehold property	
- Branch properties	up to 10 years[(1)]
- Office properties	up to 15 years[(1)]
Computers and similar equipment	3 - 7 years
Fixtures and fittings and other equipment	5 - 10 years

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

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

AIB UK Group reviews its depreciation rates regularly, at least annually, to take account of any change in circumstances. When deciding on useful lives and methods, the principal factors that AIB UK Group takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of, the assets.

When reviewing residual values, AIB UK Group estimates the amount that it would currently obtain from the disposal of the asset, after deducting the estimated cost of disposal if the asset was already of the age and condition expected at the end of its useful life. Gains and losses on disposal of property, plant and equipment are included in the income statement. It is AIB UK Group policy not to revalue its property, plant and equipment.

1.23 Intangible assets

Computer software and other intangible assets with finite useful lives are stated at cost, less amortisation on a straight line basis and provisions for impairment, if any. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by AIB UK Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred. Capitalised computer software is amortised over 3 to 9 years. Other intangible assets are amortised over the life of the asset.

1.24 Impairment of property, plant and equipment and intangible assets

Annually, or more frequently where events or changes in circumstances dictate, property, plant and equipment and intangible assets are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. Intangible assets not yet available for use are subject to an annual impairment review.

The impairment review comprises a comparison of the carrying amount of the asset or cash generating unit with its recoverable amount. Cash-generating units are the lowest level at which management monitors the return on investment in assets. The recoverable amount is determined as the higher of fair value less costs to sell of the asset or cash generating unit and its value in use. Fair value less costs to sell is calculated by reference to the amount at which the asset could be disposed of in an arm’s length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis. For intangible assets not yet available for use, the impairment review takes into account the cash flows required to bring the asset into use.

The carrying values of property, plant and equipment and intangible assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss may be reversed in part or in full when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the asset’s recoverable amount. The carrying amount of the asset will only be increased up to the amount that it would have been had the original impairment not been recognised.

1.25 Non-current assets held for sale

A non-current asset, or a disposal group comprising assets and liabilities, is classified as held for sale if it is expected that its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset or disposal group.

On initial classification as held for sale, generally, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to the income statement. The same applies to gains and losses on subsequent remeasurement. No reclassifications are made in respect of prior periods.

Impairment losses subsequent to classification of assets as held for sale are recognised in the income statement. Subsequent increases in fair value, less costs to sell of the assets that have been classified as held for sale are recognised in the income statement to the extent that the increase is not in excess of any cumulative impairment loss previously recognised in respect of the asset. Assets classified as held for sale are not depreciated.

1.26 Provisions for liabilities and commitments

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

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

Restructuring costs
Where AIB UK Group has a formal plan for restructuring a business and has raised valid expectations in the areas affected by the restructuring by starting to implement the plan or by announcing its main features, provision is made for the anticipated cost of restructuring, including retirement benefits and redundancy costs, when an obligation exists. The provision raised is normally utilised within twelve months. Future operating costs are not provided for.

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

Legal claims and other contingencies
Provisions are made for legal claims where AIB UK Group has present legal or constructive obligations as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Contingent liabilities are possible obligations whose existence will be confirmed only by the occurrence of uncertain future events or of present obligations where the transfer of economic benefit is uncertain or cannot be reliably estimated. Contingent liabilities are not recognised but are disclosed in the notes to the financial statements unless the possibility of the transfer of economic benefit is remote.

A provision is recognised for a constructive obligation where a past event has led to an obligating event. This obligating event has left AIB UK Group with little realistic alternative but to settle the obligation and AIB UK Group has created a valid expectation in other parties that it will discharge the obligation.

Onerous contracts
When a decision is made that a leasehold property will cease to be used in the business, provision is made, where the unavoidable costs of future obligations relating to the lease are expected to exceed anticipated income. Before the provision is established, AIB UK Group recognises any impairment loss on the assets associated with the lease contract. Since the introduction of IFRS 16 on 1 January 2019, when a lease liability was created to reflect future rental obligations, no provision is made for rent within the onerous contract provision.

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

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

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

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

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

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

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

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

Notes to the financial statements

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

On disposal of equity securities which on initial recognition had been designated at FVOCI, any amounts held in the investment securities reserves account is transferred directly to revenue reserves without recycling through profit or loss.

Cash flow hedging reserves
Cash flow hedging reserves represent the net gains or losses, net of tax, on effective cash flow hedging instruments that will be reclassified to the income statement when the hedged transaction affects profit or loss.

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

The contributions are classified as equity and may be either distributable or non-distributable. Capital contributions are distributable if the assets received are in the form of cash or another asset that is readily convertible to cash, otherwise they are treated as non-distributable.

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

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

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

Amendments to IAS 1 *Presentation of Financial Statements:* Classification of Liabilities as Current or Non-current
In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:
– what is meant by a right to defer settlement;
– that a right to defer must exist at the end of the reporting period;
– that classification is unaffected by the likelihood that an entity will exercise its deferral right; and
– that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

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

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

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

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

The amendments to IAS 8 regarding accounting policies, changes in accounting estimates and errors were issued in February 2021 to help entities to distinguish between accounting policies and accounting estimates. The changes relate entirely to accounting estimates and clarify the following:

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

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

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

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

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

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

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

Other

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

2. Critical accounting judgements and estimates

The preparation of financial statements requires management to make judgements, in the application of accounting policies, and estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management judgement involves making assessments concerning the likelihood of future events, the actual results could differ from those estimates.

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

Impairment of financial assets

AIB UK Group's accounting policy for impairment of financial assets is set out in note 1.19. The ECL allowances for financial assets at 31 December 2021 represent management's best estimate of the expected credit losses on the various portfolios at the reporting date.

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

Judgement is involved in:

– Determining the criteria for a significant increase in credit risk and for being classified as credit impaired;
– Choosing the appropriate models and assumptions for ECL e.g. PD, LGD and exposure at default ('EAD');
– Determining the life of a financial instrument and therefore, the period over which to measure ECL;
– Establishing the number and relative weightings for forward looking scenarios for each asset class and ECL;
– Determining the requirement, and the appropriate methodology, for any post-model adjustments (see note 21(a) for further details);
– Stratifying financial assets into groups with similar risk characteristics.

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

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

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

Recoverability of deferred tax asset

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

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

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

Estimates of the level of future profitability are made in determining the amount of deferred tax asset on unutilised losses to recognise at the reporting date. This includes estimating the impact of economic conditions including, for 2021, the COVID-19 pandemic, on future profitability.

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

Retirement benefit obligations

AIB UK Group’s accounting policy for retirement benefit plans is set out in note 1.10 and details of the key assumptions and the valuation of the AIB Group (UK) Pension Scheme (the 'UK Scheme'), at 31 December 2021 are set out in note 28.

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

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

Estimates are made by the Directors of a number of financial and demographic assumptions under advice from the Company’s actuaries. This includes estimates of the discount rate, inflation rate and the expected longevity of scheme members.

The impact on the income statement, other comprehensive income and statement of financial position could be materially different if a different set of assumptions were used. The assumptions adopted for AIB UK Group's pension schemes are set out in note 28 to the financial statements, together with a sensitivity analysis of the scheme assets (APP and SLP assets) and scheme liabilities to changes in those assumptions.

Restructuring provision

AIB UK Group’s accounting policy for provision for liabilities and commitments, including restructuring costs, is set out in note 1.26. The strategy for 2021-2023, which included a plan to restructure the business, was approved by the Board in November 2020 and the scope of the restructure was widened during 2021 to include NI and GB support areas.

Judgement is involved in assessing whether AIB UK Group has raised valid expectation in employees affected by the plan, such that a restructuring provision should be recognised in accordance with IAS 37. AIB UK Group determined that, as the voluntary severance provision at 31 December 2021 is to cover the exit of staff who applied and had been accepted for voluntary severance in 2021, with exits to occur in 2022 after the servicing of the derecognised SME loans has been completed, there is a valid expectation in those affected and a provision for voluntary severance and other costs associated with the plan has been provided for at 31 December 2021 (see note 33).

Fair value of investment securities

The fair value of the investment securities (note 22) has been identified as a source of estimation uncertainty at 31 December 2021 that has a significant risk of resulting in a material adjustment within the next year.

Estimates are involved in assessing the fair value of the equity investment securities based on expected sale proceeds. The expected sale proceeds of £40m at 31 December 2021 have been based on a net asset value of the underlying trading entity. Applying different assumptions at 31 December 2021 to determine expected sale proceeds could materially impact the fair value estimation. A 10% increase in the net asset value of the underlying entity would increase the fair value of the investment by £4m to £44m. A reduction in the net asset value to €240m would reduce the fair value by £6m to £34m. These sensitivities are included in the level 3 measurements table within note 39 on page 153. Using a revenue multiplier estimation, as used in previous years' valuations, and applying a revenue multiplier of between 3.5 and 4.5 to the income of the underlying trading entity would give an investment security valuation of between £34m and £44m.

Notes to the financial statements

3. Interest income

	2021 £m	2020 £m
Interest on loans and advances to banks at amortised cost	21	22
Interest on loans and advances to customers at amortised cost	192	219
Interest income calculated using the effective interest method	213	241
Interest from finance leases and hire purchase contracts	5	5
Total interest income	218	246

4. Interest expense

	2021 £m	2020 £m
Interest on deposits by banks	8	11
Interest on customer accounts	10	18
Interest on secondary non-preferential debt	1	1
Interest on lease liabilities (note 31)	1	1
Interest expense calculated using the effective interest method	20	31

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

5. Net fee and commission income

	2021 £m	2020 £m
Retail banking customer fees	14	15
Credit related fees	12	11
Foreign exchange fees	7	8
Service charge[1]	3	3
Credit card commission	3	3
Other fees and commission	6	5
Fee and commission income	45	45
Fee and commission expense	(4)	(4)
	41	41

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

6. Net trading and other financial income/(expense)

	2021 £m	2020 £m
Interest rate contracts	7	(1)
	7	(1)

Notes to the financial statements

7. Net gain on other financial assets measured at FVTPL

	2021	2020
	£m	£m
Investment securities - equity	**6**	2
	6	2

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

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

	2020	
	Carrying value of derecognised financial assets measured at amortised cost	Gain from derecognition
	£m	£m
Loans and advances to customers	4	3
	4	3

£9m of the loss from derecognition in 2021 arose from the sale of a portfolio of AIB GB performing small and medium enterprise ('SME') loans (see note 15) offset by a profit of £1m (2020: £3m) on the disposal of other loans and advances to customers.

9. Other operating income

	2021	2020
	£m	£m
Miscellaneous other operating income	**—**	2
	—	2

Notes to the financial statements

10. Operating expenses

	2021 £m	2020 £m
Wages and salaries	**50**	52
Social security costs	**6**	6
Termination benefits[1]	**11**	21
Pension costs		
- Defined contribution plans (note 28)	**8**	9
- Defined benefit plans (note 28)	**—**	(1)
Other personnel expenses	**15**	14
Personnel expenses	**90**	101
General and administrative expenses[2]	**51**	62
Operating expenses	**141**	163

[1]For the year ended 31 December 2021, a charge of £11m (2020: £21m) was made to the income statement in respect of termination benefits arising from the voluntary severance programme in operation in AIB UK Group. £10m of the charge at 31 December 2021 (2020: £19m) relates to the restructuring provision, explained in note 33(b).

[2]Includes a charge of £6m (2020: £6m) relating to the restructuring provision (note 33(b)); £3m writeback (2020: £5m charge) for litigation and other provisions for liabilities (note 33); £1m (2020: £1m) in respect of the FSCS levy; and operating lease rentals of £1m (2020: £1m).

The monthly average number of employees (full time equivalents) of AIB UK Group and AIB UK during the year was 901 (2020: 975).

11. Auditor's remuneration

Auditor's remuneration is included within other administrative expenses in the income statement. The charges included in 2021 and 2020 shown below are exclusive of Value Added Tax (VAT). The charge for 2021 includes an amount of £345k payable to the auditors for 2021 audit services that relate to both the audit of the Parent Group and the audit of AIB UK Group, which in previous years was settled via the Parent. The fees were payable by AIB UK Group to the principal auditor, Deloitte LLP.

	2021 £'000	2020 £'000
Audit fees for statutory audit[1]	**1,005**	557
Other assurance services (including regulatory compliance work)[2]	**158**	61
Audit of pension schemes associated with AIB UK Group	**44**	42
	1,207	660

[1]The audit of subsidiaries is included within the statutory audit fee. Additional audit fees of £93k were charged in 2021 in relation to the 2020 audit (2020: £12k in relation to the 2019 audit).

[2]Other assurance services includes Bank of England Assurance Reporting; CASS Client Money Reporting; and Term Funding Scheme Assurance Reporting. Due to their nature these services are usually performed by the external auditor. No additional fees were charged in 2021 in relation to 2020 services (2020: £3k in relation to 2019 services).

12. Net credit impairment writeback/(charge)

The following table analyses the income statement net credit impairment charge on financial instruments for the years ended 31 December 2021 and 2020.

Credit impairment writeback/(charge) on financial instruments	2021 Measured at amortised cost £m	2020 Measured at amortised cost £m
Net re-measurement of ECL allowance:		
Loans and advances to customers	6	(178)
Loan commitments (note 33)	(1)	(4)
Credit impairment writeback/(charge) before recoveries	5	(182)
Recoveries of amounts written-off in previous years	3	4
Net credit impairment writeback/(charge)	8	(178)

13. Income tax charge from continuing operations

	2021 £m	2020 £m
Current tax		
Corporation tax in the UK		
UK corporation tax on profits for the period	(7)	25
Adjustments in respect of prior years	—	1
Current tax (charge)/credit for the year	(7)	26
Deferred tax		
Origination and reversal of temporary differences		
- Current year	(1)	3
- Prior year	4	—
Change in deferred tax on losses of previous not recognised losses:		
- Current year	85	(8)
Deferred tax credit/(charge) for the year (note 27)	88	(5)
Total tax credit for the year	81	21

The tax credit for the period is a higher credit (2020: higher credit) than the 2021 standard average rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

	2021 £m	2020 £m
Corporation tax (charge)/credit at standard average rate	(17)	20
Effects of:		
Expenses not deductible for tax purposes	2	3
Exempted income, income at reduced rates and tax credits	1	—
Income taxed at bank surcharge rate	(4)	10
Deferred tax amounts previously not recognised	71	—
Deferred tax asset write down	—	(24)
Change in tax rate	24	10
Other differences	—	1
Adjustments to tax charge in respect of prior years	4	1
Tax credit	81	21

At 31 December 2021 the current taxation balance of AIB UK Group was an asset of £28m (2020: £32m) and of AIB UK was an asset of £28m (2020: £32m).

14. Dividends on equity shares

No dividends were paid during 2021 or 2020.

15. Transfer of financial assets

Continuing involvement in derecognised financial assets

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

Sale of assets to third parties
AIB UK Group sold a portfolio of loans with a net book value of £7m to a third party in February 2021 for a consideration of £7m. After taking into account selling, post signing movement and other costs a loss on disposal of £0.2m was recorded on this transaction. The loans were derecognised from the balance sheet at the date of sale of 18 February 2021. AIB UK continued to service the loans on behalf of the purchaser until transition of the final loans was completed in October 2021. AIB UK received a minimal fee for servicing the loans while they were in transition. At 31 December 2021, an amount of £3m, relating to cash amounts received by AIB UK from customers, was due to be paid to the purchaser.

AIB UK Group sold a portfolio of GB SME loans with a net book value of £271m to a third party in November 2021 for a consideration of £261m. After taking into account selling, post signing movement and other costs, a loss on disposal of £9m was recorded on this transaction (see note 8). The loans were derecognised from the balance sheet at the date of sale of 23 November 2021. AIB UK are continuing to service the loans on behalf of the purchaser until transition is complete later in 2022. AIB UK receives a fee for servicing the loans while they are in transition. At 31 December 2021, an amount of £19m, relating to cash amounts received by AIB UK from customers, was due to be paid to the purchaser.

16. Derivative financial instruments

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

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

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

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

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 2021 is set out in note 36.

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 as described in the Risk management section.

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

				2021				2020
	Less than 1 year	1 to 5 years	5 years+	Total	Less than 1 year	1 to 5 years	5 years+	Total
Residual maturity	£m	£m	£m	£m	£m	£m	£m	£m
Notional principal amount	3,894	2,669	3,247	9,810	4,231	2,803	2,576	9,610
Positive fair value	8	16	67	91	6	38	137	181

The concentration of exposures of AIB Group UK, in respect of notional principal amounts of £9,810m (2020: £9,610m) and positive fair value of interest rate and exchange rate contracts of £91m (2020: £181m), 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 2021 and 2020:

			2021			2020
	Notional principal amount	Fair values Assets	Fair values Liabilities	Notional principal amount	Fair values Assets	Fair values Liabilities
	£m	£m	£m	£m	£m	£m
Derivatives held for trading						
Interest rate derivatives - OTC						
Interest rate swaps	3,429	71	(74)	2,691	119	(127)
Interest rate options bought and sold	641	2	(1)	629	1	—
Total interest rate derivatives	4,070	73	(75)	3,320	120	(127)
Foreign exchange derivatives - OTC						
Foreign exchange contracts	307	5	(5)	364	4	(4)
Total foreign exchange derivatives	307	5	(5)	364	4	(4)
Total derivatives held for trading	4,377	78	(80)	3,684	124	(131)
Derivatives held for hedging						
Derivatives designated as cash flow hedges - OTC						
Interest rate swaps	5,433	13	(48)	5,926	57	(11)
Total derivatives designated as cash flow hedges	5,433	13	(48)	5,926	57	(11)
Total derivatives held for hedging	5,433	13	(48)	5,926	57	(11)
Total derivative financial instruments	9,810	91	(128)	9,610	181	(142)

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

	AIB UK Group & AIB UK				
					2020
	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
	£m	£m	£m	£m	£m
Forecast receivable cash flows	1	—	2	7	10
Forecast payable cash flows	—	1	1	—	2

For AIB UK Group, the ineffectiveness reflected in the income statement that arose from cash flow hedges is £nil (2020: £nil). The total amount recognised in other comprehensive income net of tax in respect of cash flow hedges was a loss of £57m (2020: gain of £20m).

Netting financial assets and financial liabilities

Derivative financial instruments are shown on the statement of financial position at their fair value. Those with a positive fair value are reported as assets and those with a negative fair value are reported as liabilities.

Notes to the financial statements

17. Loans and advances to banks

	AIB UK Group		AIB UK	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
At amortised cost				
Funds placed with central banks	**303**	339	**303**	339
Funds placed with other banks	**334**	244	**334**	244
Loss allowance (note 20)	**—**	—	**—**	—
Total loans and advances to banks	**637**	583	**637**	583
Amounts include:				
Due from AIB plc and fellow subsidiaries	**233**	140	**232**	140
External rating:				
AA/AA-	**309**	397	**309**	397
A-/A	**95**	46	**95**	46
BB+/BBB+/BBB-	**233**	140	**233**	140
	637	583	**637**	583

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 2021 (2020: £nil) in respect of government securities. No collateral (2020: £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 2021 and 2020. An insignificant ECL was held on the intercompany loans at 31 December 2021 and 2020.

18. Loans and advances to customers

	AIB UK Group & AIB UK	
	2021	2020*
	£m	£m
At amortised cost		
Loans and advances to customers	**6,268**	6,964
Amounts receivable under finance leases and hire purchase contracts (note 19)	**131**	138
	6,399	7,102
Loss allowance (note 20)	**(201)**	(245)
Total loans and advances to customers	**6,198**	6,857
Amounts include:		
Due from AIB plc and fellow subsidiaries	**13**	—

*Amounts receivable under finance leases and hire purchase contracts in AIB UK Group at 31 December 2020 included £0.08m relating to First Trust Leasing (No.4) N.I. Limited.

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

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

Notes to the financial statements

19. Amounts receivable under finance leases and hire purchase contracts

The following balances principally comprise of leasing arrangements and hire purchase agreements involving vehicles, plant, machinery and equipment:

	AIB UK Group & AIB UK	
	2021	2020
	£m	£m
Gross receivables		
Not later than 1 year	**66**	56
Later than 1 year and not later than 2 years	**31**	40
Later than 2 years and not later than 3 years	**21**	25
Later than 3 years and not later than 4 years	**11**	14
Later than 4 years and not later than 5 years	**6**	6
Later than 5 years	**1**	1
Total gross receivables	**136**	142
Unearned future finance income	**(5)**	(4)
Present value of minimum payments	**131**	138
ECL allowance for uncollectible minimum payments receivable[1]	**8**	1

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

20. Loss allowance on financial assets

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

	AIB UK Group & AIB UK	
	2021	2020
	£m	£m
At 1 January	**245**	89
Net remeasurement of loss allowance - customers (note 12)	**(6)**	178
Changes in loss allowance due to write-offs	**(14)**	(17)
Changes in loss allowance due to derecognition	**(24)**	(5)
At 31 December	**201**	245
Amount included in financial assets measured at amortised cost:		
Loans and advances to banks	**—**	—
Loans and advances to customers	**201**	245
	201	245

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

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

Notes to the financial statements

21. Credit risk disclosures

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

(a) Measurement, methodologies and judgements

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

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

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

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

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

Bases of Measurement

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

Staging

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

Credit risk at origination

Credit risk at origination ('CRAO') 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, in line with regulatory requirements.

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

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

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

Quantitative measure: This measure reflects an arithmetic assessment of the change in credit risk arising from changes in the probability of default. AIB UK Group compares each obligation's annualised average probability weighted residual lifetime probability of default ('LTPD') at origination (see 'Credit risk at origination') to its annualised average probability weighted residual LTPD at the reporting date. If the difference between these two LTPDs meets the quantitative definition of SICR, 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 85 bps 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. As a result of COVID-19 a suite of additional guidance documents to support identification of significant increase in credit risk have been applied by AIB UK Group. This guidance supplements AIB UK Group's existing credit risk policies and frameworks.

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

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

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

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

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

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

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

Events that would result in AIB UK Group deeming a borrower unlikely to pay include, but are not limited to: bankruptcy, payment or milestone default, acceleration of repayments/demanding of debt, loss of income, commencement of realisation of security, credit fraud, death, debt forgiveness, contagion, loss of operating license, postponement/extension past economical lifetime of project, and loan to value covenant/margin call.

The trigger for default is based on a calculation of the sum of all past due amounts related to the loan for a retail borrower or related to the loans for a non-retail borrower. 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 < £10 million, the DCF assessment produces a base case ECL and the impact of macroeconomic scenarios are applied as a PMA (see page 109). Multiple DCFs are captured where gross credit exposure is ≥ £10 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. Where a range of scenarios are captured through multiple DCFs, these are probability weighted to produce the final ECL.

iv. **Management judgement**: Where the estimate of ECL does not adequately capture all available forward looking information about the range of possible outcomes, or where there is a significant degree of uncertainty, management judgement may be considered appropriate for an adjustment to ECL. The management adjustment must consider all relevant and supportable information, including but not limited to, historical data analysis, predictive modelling and management experience.

Effective interest rate
The ECL must incorporate the time value of money discounted to the reporting date using the effective interest rate ('EIR') determined at initial recognition or an approximation thereof.
- 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 investment debt securities portfolio and for loans and advances to banks, specifically, assets which have an internal grade equivalent to an external investment grade rating (BBB-) or higher.

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

Short term cash
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.

Credit risk models
Probability of default
PD is the likelihood that an account or borrower defaults over an observation period, given that they are not currently in default. The PD modelling approach uses a combination of rating grades/scores obtained from credit risk models, as outlined on page 117, along with key factors such as the current/recent arrears status or the current/recent forbearance status and macroeconomic factors to obtain the relevant 12 month (Stage 1) and Lifetime (Stage 2) PD.

Loss given default
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 to the portfolios:

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

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

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

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

Notes to the financial statements

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

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

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

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

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

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

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

Post model adjustments ('PMAs')
The ECL allowance at 31 December 2021 includes the following management adjustments to capture risks that have not been included within the ECL model.

Non-property business Stage 1 and 2 PMA
For the Non-property business portfolio, a PMA was applied to a cohort of highly leveraged exposures for which the model was deemed to be under-predicting the level of defaults versus observed default rates.

In total, this results in an increase in ECL of £2m to Non-property business Stage 1 and 2 ECLs. The total Stage 1 and Stage 2 loan balance for Non-property business at the reporting date was £4,962m (includes off balance sheet commitments).

Stage 3 PMAs
A PMA has been applied to implement an LGD floor of 5% to all non-retail loans and 1% to residential mortgage loans in Stage 3. An adjustment is also applied to reflect the impact of multiple scenarios on Stage 3 ECLs to resolve current limitations. In total, these adjustments increased Stage 3 ECLs by £9m (Non-property business: £8m; Property and construction: £1m; Residential mortgages: less than £1m).

In addition, a PMA to increase ECLs by £7m was applied to reflect anticipated execution costs on an expected sale of a cohort of Stage 3 exposures in 2022 (Non-property business: £6m; Property and construction, Residential mortgages, and Personal all individually less than £1m, but on aggregate equal £1m).

In total, PMAs of £16m were applied to total Stage 3 loans of £558m (includes off balance sheet commitments).

The total effect of all PMAs is to increase ECLs by £18m. This compares to £89m at 31 December 2020 which was principally required to reflect the view that the modelled outcome did not adequately quantify the impact of COVID-19 on the UK economy. This impact is now deemed to be fully reflected in the modelled ECL output.

Notes to the financial statements

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 126 to 128.

The contractual amount outstanding of loans written-off during the year that are still subject to enforcement activity is outlined on page 125 and relate to non-contracted write-offs, both full and partial.

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

(b) Macroeconomic scenarios and weightings

The macroeconomic scenarios used by AIB UK Group for ECL allowance calculations are subject to the Parent Group's existing governance process and approval of the AIB UK Board Audit Committee. The parameters used within AIB UK Group's ECL models include macroeconomic factors which have been established as drivers of the default risk and loss estimates. Therefore, a different credit loss estimate is produced for each scenario based on a combination of these identified macroeconomic factors. The credit loss estimates for each given scenario are then weighted by the assessed likelihood of occurrence of the respective scenarios to yield the ECL outcome.

Macroeconomic scenarios:

The COVID-19 pandemic is the main risk to the short-term economic outlook during the reporting period. The recent emergence, and rapid spread in a number of countries, of its latest 'Omicron B' variant remains a cause for concern with further public health measures and guidance announced to help reduce the spread of the virus. As part of the process of preparing the ECL calculation, a number of plausible scenarios were considered, as at the reporting date, which reflected a reasonable range of prevailing risks and uncertainties including, inter alia, possible trajectories for the public health crisis, as well as for inflation that might trigger a future economic downturn. In total, four scenarios have been used in the ECL calculation. These four scenarios consist of a Base case scenario, along with three alternative scenarios (comprising one upside, one relatively mild downside scenario that considers unexpected prevalence of the virus and a more severe downside arising from persistently high inflation which necessitates a hike in official interest rates) with the consequent economic impacts. Non-linear effects are captured in the development of risk parameters as well as through the inclusion of both the single upside and two downside scenarios.

The Parent Group's Economic Research Unit ('ERU') provides the scenario forecasts over five years. The base case is benchmarked against the outlook available from official sources (e.g. Bank of England, IMF, Office for Budget Responsibility ('OBR') 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: The scenario assumes that, with the rapid and successful roll-out of COVID-19 vaccines and the supportive role of fiscal and monetary policies, the outlook for the global economy improves.

Very strong growth in economic activity is anticipated in most economies during 2022. The surge in GDP growth in the UK reverts to a more normal pace from 2023 onwards. In this scenario, UK economic activity has returned to pre-pandemic levels by the second quarter of 2022. This scenario incorporates the EU/UK trade deal that has been implemented on 1 January 2021 which removes one risk to the economic outlook, though UK growth will still be negatively impacted in the coming years by its departure from the EU Single Market and Customs Union. It could lower the annual growth rate of the economy by circa 0.5% on average over the next five years.

The impact of the deep recession on the labour market and household incomes has been contained by the Coronavirus Job Retention Scheme and other income support measures. The unemployment rate is assumed to register a sharp rise following the expiry of this furlough scheme in late 2021 but this rise is expected to be short-lived and to trend gradually downwards from the first quarter of 2022 onwards but remaining above the rate prevailing in 2019 out to 2026.

Residential property prices have proved resilient, given the scale of the shock that the economy suffered during the pandemic, as a result of the stamp duty holiday on property transactions (which expired on 30 September 2021) and an ongoing housing shortage amid continuing low levels of house building, which have underpinned prices. House price inflation is expected to decelerate, compared to the high rates of increases recorded in the second half of 2020, with prices projected to rise by 10.5% in cumulative terms over the period 2022-2026 (end-year basis).

AIB UK Group is cautious on the outlook for the UK commercial property sector, with values expected to trend downwards until the middle of 2022 but to rise at a modest pace of 2% per annum thereafter.

Downside 1 (‘Lower growth in 2022’): This scenario assumes that the production and speed of vaccine deployment does not prove fast enough to stop transmission of the virus and emergence of new vaccine resistant variants. Economic activity is slower to recover as a result of the re-introduction of some containment measures during 2022 with business and consumer confidence impacted as uncertainty remains high. Economic growth, as measured by GDP, is 1.5 percentage points lower in 2022 and the additional scarring effects from this results in growth being c.3% lower, relative to the Base scenario, over the 2022-2026 period. In this scenario, economic activity does not return to pre-pandemic levels of activity until the first quarter of 2023.

Unemployment rises from 5.8% at end 2021 to c.7% in the final quarter of 2023, before starting to decline gradually. Nevertheless, the unemployment rate remains two percentage points higher than in the Base scenario in 2026.

House prices are assumed to decline in both 2022 and 2023 with low single-digit growth in subsequent years. Commercial real estate prices also remain under downward pressure in 2022-2023. By 2026, both residential and commercial property prices are assumed to be c.10% lower than in the Base scenario.

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

Unemployment peaks at c.9% in 2024, declining to 6.9% by 2026 (2.9 percentage points higher than the Base scenario). The average rate of unemployment is 3.4 percentage points higher than in the Base scenario over the period 2022 to 2026.

With the UK economy in recession, there is a very large fall in residential property values (by 18.5%) with prices c.26% lower than the Base scenario by end-2026. CRE prices decline by approximately 30% in the period 2022-2024 with values 30% lower than the Base scenario by end-2026.

Upside (‘Quick economic recovery’): More effective vaccine developments and rollouts help to reduce uncertainty which, in addition to a faster then anticipated rundown of personal savings, underpins a stronger recovery in this scenario than assumed in the Base scenario for the period 2022-2024. The boost to confidence of both households and businesses leads to a more robust pick-up in consumer spending and investment. GDP grows by 7% in 2022 and increases by 3% in 2023 and 2.2% in 2024. By 2026, the level of GDP is c.16% above what it would be in the Base scenario.

In this scenario, unemployment falls faster than in the base, with the rate reverting to pre-pandemic levels towards the end of 2025 (and averages 3.7% in 2026). UK prices in terms of both residential and CRE markets are 11.5% and 15.2% higher, respectively, than the Base case by the end of 2026.

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 2021 (average over 2022-2026) and at 31 December 2020 (average over 2021-2025).

All of the macroeconomic scenarios reported in the table below are those provided by the Parent Group's ERU and approved prior to the year-end 2021.

				2021
				5 year (2022-2026) average forecast
Macroeconomic factor (%)	**Base**	**Downside 1 ('Lower growth in 2022')**	**Downside 2 ('Persistent high inflation')**	**Upside ('Quick economic recovery')**
United Kingdom				
GDP growth	2.4	1.8	1.1	3.0
Residential property price growth	2.0	(0.1)	(3.7)	3.0
Unemployment rate	4.6	6.6	8.0	4.3
Commercial property price growth	1.5	(0.6)	(5.1)	3.6
Inflation	2.0	1.7	2.5	2.4

				2020
				5 year (2021-2025) average forecast
Macroeconomic factor (%)	Base	Downside 1 ('Lower growth in 2021')	Downside 2 ('Extended high unemployment')	Upside ('Quick economic recovery')
United Kingdom				
GDP growth	2.9	2.3	1.1	3.7
Residential property price growth	1.3	0.4	(4.4)	2.9
Unemployment rate	5.6	6.8	10.1	4.6
Commercial property price growth	2.2	1.2	(3.9)	3.1
Inflation	1.7	1.5	1.2	1.8

Additional information is provided in the table below which details the individual macroeconomic factor forecast for each year across the four scenarios, as at 31 December 2021. This is because, due to the increased variability as a result of COVID-19, the average for the five years 2022-2026 above does not provide sufficient insight for each factor across the impacted years.

	Estimate	Base					Downside 1				
	2021	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026
Macroeconomic factor (%)	%	%	%	%	%	%	%	%	%	%	%
GDP growth	6.5	5.5	1.8	1.6	1.5	1.4	4.0	0.5	1.0	1.5	1.8
Residential property price growth	3.5	—	1.5	2.5	3.0	3.0	(6.0)	(2.5)	2.0	3.0	3.0
Unemployment rate	5.1	5.5	4.8	4.5	4.2	4.0	6.5	7.0	7.0	6.6	6.0
Commercial property price growth	(0.5)	(0.5)	2.0	2.0	2.0	2.0	(6.0)	(2.5)	1.5	2.0	2.0
Inflation	2.5	2.2	2.0	2.0	2.0	2.0	1.9	1.5	1.6	1.7	1.8

	Downside 2					Upside				
	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026
Macroeconomic factor (%)	%	%	%	%	%	%	%	%	%	%
GDP growth	2.2	(1.2)	1.0	1.7	2.0	7.0	3.0	2.2	1.5	1.4
Residential property price growth	(10.0)	(15.0)	(0.5)	4.0	3.0	5.0	3.0	3.0	2.0	2.0
Unemployment rate	7.1	8.8	9.1	8.1	6.9	5.2	4.5	4.1	3.9	3.7
Commercial property price growth	(12.0)	(17.0)	(4.5)	3.5	4.5	5.0	4.5	4.0	2.5	2.0
Inflation	4.0	3.3	2.2	1.6	1.4	2.5	2.5	2.4	2.4	2.3

Notes to the financial statements

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

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

Similar to the scenario forecasts, the probability weight assigned to each scenario is proposed by the Parent Group's ERU. These are reviewed and approved by the Parent Group’s governance processes, and by the AIB UK Board Audit Committee. The probabilities described below reflect the views of AIB UK Group at the reporting date.

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

The key drivers of the weightings at the reporting date are:

– The higher weighting on the downside scenarios (versus the upside scenario) reflects AIB UK Group's view that risks remain skewed to the downside due to rising COVID-19 cases and the spread of a new variant which was a cause for concern; rising inflationary pressures, continuing disruptions to supply chains and labour shortages that impede the pace of activity and raise the potential for greater than expected economic scarring. Additionally, other risks remain which also support AIB UK Group's view that risks have become somewhat tilted to the downside. These include the risk that government supports to businesses and households may be delaying, but not preventing, future defaults and bankruptcies. There are also rising tensions between the UK and the EU relating to Brexit and the Northern Ireland protocol. In addition, excess savings built up during the pandemic may be retained for precautionary motives, rather than spent, impacting on economic growth.
– The weightings also consider the fact that unemployment is trending lower than expected in many economies, with little evidence yet of major scarring in labour markets from the pandemic. House prices are performing better than anticipated. Meanwhile, a much greater than expected rundown of private sector savings in the next couple of years could fuel stronger than anticipated growth, especially given the extent of pent-up consumer demand.
– Risks were adjudged to be evenly balanced at June 2021 (the weighting assigned to downside risks was 25% while the upside scenario weight was also 25%). In the final quarter of 2021, however, AIB UK Group's view was that the balance of risks had tilted more to the downside due to the above mentioned developments.

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

Scenario	**Weighting 31 December 2021**
Base	50 %
Downside 1 ('Lower growth in 2022')	25 %
Downside 2 ('Persistent high inflation')	5 %
Upside ('Quick economic recovery')	20 %

Scenario	Weighting 31 December 2020
Base	50 %
Downside 1 ('Lower growth in 2021')	25 %
Downside 2 ('Extended high unemployment')	5 %
Upside ('Quick economic recovery')	20 %

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

(c) Sensitivities

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

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 2021 and 2020 with the sensitivity based on application of 100% weighting to each of the economic scenarios.

					2021
	Reported	100% Base	100% Downside 1 ('Lower growth in 2022')	100% Downside 2 ('Persistent high inflation')	100% Upside ('Quick economic recovery')
Loans and advances to customers	£m	£m	£m	£m	£m
Residential mortgages	5	5	6	7	5
Other personal	1	1	1	2	1
Property and construction	27	27	27	31	25
Non-property business	168	166	174	201	159
Total	201	199	208	241	190
Off-balance sheet loan commitments	10	10	11	14	9
Financial guarantee contracts	1	1	1	1	1
	212	210	220	256	200

					2020
	Reported	100% Base	100% Downside 1 ('Lower growth in 2021')	100% Downside 2 ('Extended high unemployment')	100% Upside ('Quick economic recovery')
Loans and advances to customers	£m	£m	£m	£m	£m
Residential mortgages	24	24	27	31	22
Other personal	2	2	2	3	2
Property and construction	37	36	40	46	32
Non-property business	182	174	209	260	145
Total	245	236	278	340	201
Off-balance sheet loan commitments	8	7	9	12	6
Financial guarantee contracts	2	2	2	2	2
	255	245	289	354	209

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

Credit risk management response to COVID-19

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

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

– The continued use of additional guidance documents to support credit risk assessment and management activities, such as credit grading, staging, unlikely-to-pay testing, and taking account of COVID-19 sector risk and expected recovery outlook. This guidance supplements AIB UK Group's existing credit risk policies and frameworks.
– Enhanced scope and frequency of portfolio asset quality monitoring, particularly focused on those sectors believed to be most impacted by COVID-19 (for example, hospitality, non-food retail, travel etc.).
– Proactive bottom-up reviews of individual cases, in addition to top-down portfolio/sector reviews, prioritising higher value exposures and the more vulnerable segments of the balance sheet.

Moving forward, AIB UK Group will continue to proactively review borrowers particularly where reliefs such as government supports are withdrawn. This has been considered as part of the governance process and was an explicit consideration as part of year end and ECL appropriateness. It has not been deemed necessary to increase ECLs at the year-end 2021 to account for any latent risk of COVID-19 as these have now been captured in the model output.

Credit risk management consideration of ESG risks

AIB UK Group continues to adapt its credit risk management processes and policies to capture ESG risks. Key additional steps taken during the year included:

– A heat mapping exercise was conducted to identify sectors most at risk to the impacts of climate change and environment risks.
– Relevant Business Credit Application Guidelines/Procedures and Credit Sanctioning Policies were updated to require the assessment of certain borrower's exposure to ESG factors.
– An ESG questionnaire was introduced for the high risk sectors as identified by the heat-mapping exercise requiring a more intensive analysis of borrowers in sub-sectors considered to have a higher risk to climate change related and environment risks.
– The commercial property valuation process was updated to obtain EPC ratings where applicable, which will be captured in collateral valuations and recorded on AIB UK Group's systems going forward.
– A new Sustainable Lending Framework was introduced which categorises lending activities as green/transition.
– The impact of climate risk was considered as part of the ECL governance process for the position as at December 2021 and it was deemed that insufficient evidence of the likely loss impacts from climate events is available to adjust ECLs materially but that 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 2022 to ensure ECLs appropriately reflect latent risk from potentially emerging climate risks.

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

(e) Maximum credit risk exposure

The maximum credit risk exposure of AIB UK Group at 31 December 2021, ignoring any collateral that may be held, is detailed below. The credit risks arising from balances at central banks and items in the course of collection are deemed to be negligible based on their maturity and counterparty status.

Statement of financial position	2021 £m	2020 £m
Balances at central banks at amortised cost[1]	5,241	4,458
Items in the course of collection	3	4
Derivative financial instruments at FVTPL	91	181
Loans and advances to banks	637	583
Loans and advances to customers	6,198	6,857
Prepayments and accrued income	10	4
Other assets	14	15
	12,194	12,102
Total off-balance sheet items	2,145	2,233
Maximum exposure to credit risk	14,339	14,335

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

(f) Credit quality of loans and advances

Credit management and credit risk management continues to be a key area of focus. Resourcing, structures, policy and processes are subjected to on-going review to ensure the front line team is best placed to manage asset quality and assist borrowers in line with agreed treatment strategies, refer to Risk Management report, page 34.

All relevant exposures are assigned to a rating model and within that to an internal risk grade (rating). A grade is assigned on the basis of rating criteria within each rating model from which estimates of probability of default (PD) are derived.

Internal credit grades are fundamental in assessing the credit quality of loan exposures, and are key to management reporting, credit portfolio analysis, credit quality monitoring and in determining the level and nature of management attention applied to exposures. Credit models generally use a combination of statistical analysis (using both financial and non-financial inputs) and expert judgement.

Credit grading and scoring systems underpin the early identification and management of any deterioration in loan quality. Changes in objective information are reflected in the credit grade of the borrower/loan with the resultant grade influencing management of individual loans. Special attention is paid to lower quality performing loans or 'criticised' loans. AIB UK Group's criticised loans are subject to more intense assessment and review because of the increased risk associated with them.

The credit grading masterscale gives AIB UK Group the ability to categorise and contrast credit risk across different portfolios in a consistent manner. The masterscale consolidates complex credit information into a single attribute, aligning the output from the risk models with the Parent Group's Forbearance and Definition of Default and Credit Impairment policies. Masterscale grades are driven by grading model appropriate PDs combined with other asset quality indicators such as default, forbearance and arrears to provide AIB UK Group with a mechanism of ranking and comparing the credit risk associated with a range of customers.

The masterscale categorises loans into a broad range of grades which can be summarised into the following categories:

Strong/satisfactory	Accounts are considered strong/satisfactory if they have no current or recent credit distress and generally the probability of default is typically less than 6.95%, they are not in arrears and there are no indications they are unlikely to pay.
Criticised	Accounts of lower quality and considered as less than satisfactory are referred to as criticised and include the following: **Criticised watch**: The credit is exhibiting weakness and is deteriorating in terms of credit quality and may need additional management attention; **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.

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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 2021 and 2020:

Amortised cost

				2021
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Total strong/satisfactory	4,736	474	—	5,210
Criticised watch	55	187	—	242
Criticised recovery	—	435	—	435
Total criticised	55	622	—	677
Non-performing	—	—	512	512
Gross carrying amount	4,791	1,096	512	6,399
ECL allowance	(28)	(80)	(93)	(201)
Carrying amount	4,763	1,016	419	6,198

Amortised cost

				2020
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Total strong/satisfactory	5,443	684	—	6,127
Criticised Watch	52	454	—	506
Criticised Recovery	—	42	—	42
Total criticised	52	496	—	548
Non-performing	—	—	427	427
Gross carrying amount	5,495	1,180	427	7,102
ECL allowance	(43)	(98)	(104)	(245)
Carrying amount	5,452	1,082	323	6,857

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(g) Concentration exposure

Credit concentration risk arises where any single exposure or group of exposures, based on common risk characteristics, has the potential to produce losses large enough relative to AIB UK Group's capital, total assets, earnings or overall risk level to threaten AIB UK Group's ability to maintain its core operations.

As set out in the Managing Director's Review on page 8, 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 professional services, health, hospitality and tourism, are included within 'Other services' below.

At 31 December 2021 the most significant concentration of exposures were to the property and construction sector, which made up 21% (2020: 21%) of loans and advances to customers, other services, 18% (2020: 20%), distribution, 17% (2020: 19%) and energy, 16% (2020: 13%) 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 2021 and 2020:

							2021
	Gross carrying amount			Analysed by ECL profile			
	Loans and advances to customers	Loan commitments and financial guarantees issued	Total	Stage 1	Stage 2	Stage 3	Total
Concentration by sector	£m	£m	£m	£m	£m	£m	£m
Non-property business:							
Agriculture	78	14	92	76	15	1	92
Energy	1,006	288	1,294	1,177	87	30	1,294
Manufacturing	209	128	337	260	53	24	337
Distribution	1,080	138	1,218	438	523	257	1,218
Transport	420	94	514	354	160	—	514
Financial	88	105	193	190	2	1	193
Other services	1,145	589	1,734	1,403	225	106	1,734
Property and construction	1,357	647	2,004	1,797	112	95	2,004
Residential mortgages	937	1	938	869	28	41	938
Other personal	79	141	220	209	8	3	220
	6,399	2,145	8,544	6,773	1,213	558	8,544

							2020
	Gross carrying amount			Analysed by ECL profile			
	Loans and advances to customers	Loan commitments and financial guarantees issued	Total	Stage 1	Stage 2	Stage 3	Total
Concentration by sector	£m	£m	£m	£m	£m	£m	£m
Non-property business:							
Agriculture	93	14	107	94	13	—	107
Energy	943	272	1,215	1,144	41	30	1,215
Manufacturing	290	154	444	304	105	35	444
Distribution	1,328	145	1,473	721	619	133	1,473
Transport	376	109	485	350	119	16	485
Financial	98	126	224	217	2	5	224
Other services	1,400	538	1,938	1,689	174	75	1,938
Property and construction	1,497	693	2,190	1,907	185	98	2,190
Residential mortgages	979	38	1,017	899	49	69	1,017
Other personal	98	144	242	225	13	4	242
	7,102	2,233	9,335	7,550	1,320	465	9,335

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 2021 and 2020.

At amortised cost

					2021
	1-30 days	**31-60 days**	**61-90 days**	**91 + days**	**Total**
Industry sector	**£m**	**£m**	**£m**	**£m**	**£m**
Non-property business:					
Agriculture	**1**	**—**	**—**	**—**	**1**
Energy	**—**	**—**	**—**	**—**	**—**
Manufacturing	**1**	**—**	**—**	**2**	**3**
Distribution	**19**	**1**	**4**	**20**	**44**
Transport	**—**	**—**	**—**	**—**	**—**
Financial	**—**	**—**	**—**	**1**	**1**
Other services	**13**	**9**	**—**	**15**	**37**
Property and construction	**16**	**1**	**2**	**27**	**46**
Residential mortgages	**5**	**1**	**—**	**18**	**24**
Other personal	**1**	**—**	**—**	**1**	**2**
Total gross carrying amount	**56**	**12**	**6**	**84**	**158**
Asset quality					
Stage 1	**18**	**—**	**—**	**—**	**18**
Stage 2	**21**	**3**	**1**	**—**	**25**
Stage 3	**17**	**9**	**5**	**84**	**115**
POCI	**—**	**—**	**—**	**—**	**—**
	56	**12**	**6**	**84**	**158**
As a percentage of total gross loans	**%**	**%**	**%**	**%**	**%**
	0.9	**0.2**	**0.1**	**1.3**	**2.5**

At amortised cost

					2020
	1-30 days	31-60 days	61-90 days	91 + days	Total
Industry sector	£m	£m	£m	£m	£m
Non-property business:					
Agriculture	1	—	—	—	1
Manufacturing	—	6	—	5	11
Distribution	45	22	12	27	106
Financial	1	—	—	—	1
Other services	3	1	5	10	19
Property and construction	8	6	4	15	33
Residential mortgages	3	2	1	36	42
Other personal	—	—	—	3	3
Total gross carrying amount	61	37	22	96	216
Asset quality					
Stage 1	18	—	—	—	18
Stage 2	30	18	7	—	55
Stage 3	13	19	15	96	143
POCI	—	—	—	—	—
	61	37	22	96	216
As a percentage of total gross loans	**%**	**%**	**%**	**%**	**%**
	0.9	0.5	0.3	1.4	3.1

(g) Gross loans and ECL movements

The following tables set out the movements in the gross carrying amount and ECL allowance for loans and advances to customers by ECL staging between 1 January 2021 and 31 December 2021 and the corresponding movements between 1 January 2020 and 31 December 2020.

Accounts that triggered movements between Stage 1 and Stage 2 as a result of failing/curing a quantitative measure only (as disclosed on page 106) 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

	AIB UK Group			
	2021			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
At 1 January	5,495	1,180	427	7,102
Transferred from Stage 1 to Stage 2	(1,002)	1,002	—	—
Transferred from Stage 2 to Stage 1	338	(338)	—	—
Transferred to Stage 3	(5)	(331)	336	—
Transferred from Stage 3	5	25	(30)	—
New loans originated/top-ups[1]	1,244	—	—	1,244
Redemptions/repayments[1][2]	(1,231)	(417)	(173)	(1,821)
Interest applied	144	39	13	196
Write-offs	—	—	(14)	(14)
Derecognised due to disposals	(219)	(57)	(50)	(326)
Exchange translation adjustments	(4)	(1)	—	(5)
Other movements	26	(6)	3	23
At 31 December	4,791	1,096	512	6,399

	AIB UK Group			
	2020			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
At 1 January	6,418	577	199	7,194
Transferred from Stage 1 to Stage 2	(1,460)	1,460	—	—
Transferred from Stage 2 to Stage 1	334	(334)	—	—
Transferred to Stage 3	(57)	(296)	353	—
Transferred from Stage 3	11	25	(36)	—
New loans originated/top-ups[1]	1,399	—	—	1,399
Redemptions/repayments[1][2]	(1,347)	(261)	(87)	(1,695)
Interest applied	182	35	11	228
Write-offs	—	—	(17)	(17)
Derecognised due to disposals	—	—	(9)	(9)
Exchange translation adjustments	1	1	1	3
Other movements	14	(27)	12	(1)
At 31 December	5,495	1,180	427	7,102

The presentation of loan movements in the above tables differs from the movements table reported in the Financial review on page 19.
[1]Includes loans renegotiated.
[2]Includes the net movement on revolving credit facilities.

ECL allowance movements

	AIB UK Group & AIB UK			
				2021
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
At 1 January	43	98	104	245
Transferred from Stage 1 to Stage 2	(13)	40	—	27
Transferred from Stage 2 to Stage 1	6	(7)	—	(1)
Transferred to Stage 3	—	(24)	55	31
Transferred from Stage 3	1	2	(4)	(1)
Net re-measurement	25	45	(25)	45
New loans originated/top-ups	5	—	—	5
Redemptions/repayments	(4)	(5)	—	(9)
Impact of model and overlay changes	(19)	(42)	1	(60)
Impact of credit or economic risk parameters	(14)	(26)	(3)	(43)
Income statement credit impairment (writeback)/ charge	(13)	(17)	24	(6)
Write-offs	—	—	(14)	(14)
Derecognised due to disposals	(2)	(1)	(21)	(24)
At 31 December	28	80	93	201

	AIB UK Group & AIB UK			
				2020
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
At 1 January	24	24	41	89
Transferred from Stage 1 to Stage 2	(11)	29	—	18
Transferred from Stage 2 to Stage 1	9	(6)	—	3
Transferred to Stage 3	(3)	(19)	66	44
Transferred from Stage 3	1	3	(7)	(3)
Net re-measurement[(1)]	(32)	15	13	(4)
New loans originated/top-ups	9	—	—	9
Redemptions/repayments	(5)	(4)	—	(9)
Impact of model and overlay changes	25	38	11	74
Impact of credit or economic risk parameters[(2)]	26	18	2	46
Income statement credit impairment charge	19	74	85	178
Write-offs	—	—	(17)	(17)
Derecognised due to disposals	—	—	(5)	(5)
At 31 December	43	98	104	245

[(1)]Includes GDP volatility since implementation of the macroeconomic scenarios in the first half of 2020.
[(2)]Reflects changes to the set of macroeconomic scenarios.

(h) 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 2021 and 2020:

Nominal amount movements

	AIB UK Group & AIB UK			
				2021
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
At 1 January	**2,052**	**143**	**38**	**2,233**
Transferred from Stage 1 to Stage 2	**(50)**	**50**	**—**	**—**
Transferred from Stage 2 to Stage 1	**65**	**(65)**	**—**	**—**
Transferred to Stage 3	**(4)**	**(2)**	**6**	**—**
Transferred from Stage 3	**—**	**1**	**(1)**	**—**
Net movement	**(84)**	**(6)**	**2**	**(88)**
At 31 December	**1,979**	**121**	**45**	**2,145**

	AIB UK Group & AIB UK			
				2020
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
At 1 January	1,913	64	14	1,991
Transferred from Stage 1 to Stage 2	(87)	87	—	—
Transferred from Stage 2 to Stage 1	29	(29)	—	—
Transferred to Stage 3	(2)	(6)	8	—
Transferred from Stage 3	2	—	(2)	—
Net movement	197	27	18	242
At 31 December	2,052	143	38	2,233

ECL allowance movements

	AIB UK Group & AIB UK			
				2021
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
At 1 January	**4**	**2**	**4**	**10**
Transferred from Stage 1 to Stage 2	**(1)**	**4**	**—**	**3**
Transferred from Stage 2 to Stage 1	**1**	**(3)**	**—**	**(2)**
Transferred to Stage 3	**—**	**(1)**	**1**	**—**
Transferred from Stage 3	**—**	**—**	**—**	**—**
Net re-measurement	**1**	**1**	**(2)**	**—**
Net income statement charge/(credit)	**1**	**2**	**(1)**	**1**
Other movements	**—**	**—**	**—**	**—**
At 31 December	**5**	**4**	**3**	**11**

	AIB UK Group & AIB UK			
	2020			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
At 1 January	2	1	3	6
Transferred from Stage 1 to Stage 2	(1)	1	—	—
Transferred from Stage 2 to Stage 1	1	(1)	—	—
Transferred to Stage 3	—	—	—	—
Transferred from Stage 3	—	—	—	—
Net re-measurement	2	1	1	4
Net income statement charge	2	1	1	4
Other movements	—	—	—	—
At 31 December	4	2	4	10

(i) Credit ratings of contingent liabilities and commitments

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

	2021	2020
	£m	£m
Strong	**1,558**	1,551
Satisfactory	**470**	616
Criticised watch	**50**	27
Criticised Recovery	**23**	2
Default	**44**	37
	2,145	2,233

(j) Collateral held

Credit risk mitigation may include a requirement for AIB UK Group to obtain collateral in support of its lending activities when deemed appropriate and has a series of policies and procedures in place for the assessment, valuation and taking of such collateral. In some circumstances, depending on the customers standing and/or the nature of the product, AIB UK Group may lend unsecured.

Where collateral or guarantees are required, they are usually taken as a secondary source of repayment in the event of the borrower's default. AIB UK Group maintains policies which detail the acceptability of specific classes of collateral.

The principal collateral types for loans and advances are:

- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over 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.

Write-offs

The contractual amount outstanding of loans written-off during the year that are subject to enforcement activity amounted to £0.1m (2020: £0.6m) which includes both full and partial write-offs. Total cumulative non-contracted loans written-off at 31 December 2021 amounted to £6m (2020: £10m).

Notes to the financial statements

(k) Repossessions

The number (stock) of repossessions of residential mortgages at 31 December 2021 is 3 (2020: 12), the balance outstanding is £0.2m (2020: £1.2m).

In respect of retail portfolios, AIB UK Group does not take physical possession of properties or other assets held as collateral. To settle indebtedness, it uses external agents to realise the value as soon as practicable. Any surplus funds are dealt with in accordance with appropriate insolvency regulations.

(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. Where a customer requests forbearance, the circumstances will be assessed on an individual case basis and the request will be considered as a potential impairment indicator, whether the forbearance proposal is agreed to or not.

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 2021 and 2020:

					2021
	Forborne loans and advances to customers at amortised cost				
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
	£m	£m	£m	£m	£m
Analysed by forbearance type					
Temporary forbearance	16	—	28	64	108 [1]
Permanent forbearance	6	1	67	628	702 [1]
Total	22	1	95	692	810
Analysed by internal credit ratings					
Strong/satisfactory:					
Total	—	—	—	—	—
Criticised:					
Stage 2	9	—	21	405	435
Total	9	—	21	405	435
Non-performing:					
Stage 3	13	1	74	287	375
Total	13	1	74	287	375
Gross carrying amount of forborne loans and advances to customers at amortised cost	22	1	95	692	810
ECL allowance	(1)	—	(11)	(96)	(108)
Carrying amount of forborne loans and advances to customers at amortised cost	21	1	84	596	702

[1]Of which: interest only £87m, reduced payment £11m, payment moratorium £11m.
[2]Of which: arrears capitalisation £5m, term extension £152m, restructure £89m, amendment to or non-enforcement of financial covenant £78m.

Notes to the financial statements

					2020	
	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	20	—	3	24	47	[1]
Permanent forbearance	12	2	15	25	54	[1]
Total	32	2	18	49	101	
Analysed by internal credit ratings						
Strong/satisfactory:						
Total	—	—	—	—	—	
Criticised:						
Stage 2	10	1	8	23	42	
Total	10	1	8	23	42	
Non-performing:						
Stage 3	22	1	10	26	59	
Total	22	1	10	26	59	
Gross carrying amount of forborne loans and advances to customers at amortised cost	32	2	18	49	101	
ECL allowance	(8)	—	(3)	(9)	(20)	
Carrying amount of forborne loans and advances to customers at amortised cost	24	2	15	40	81	

[1]Of which: interest only £23m, reduced payment £4m, payment moratorium £19m.
[2]Of which: arrears capitalisation £7m, term extension £35m, restructure £11m.

22. Investment securities

	AIB UK Group & AIB UK	
	2021	2020
	£m	£m
Equity securities		
Equity shares (unlisted) - measured at FVTPL	**40**	34
Total equity securities	**40**	34
Total investment securities	**40**	34

The sensitivity of the valuation of investment securities to using reasonably possible alternative assumptions in the fair value calculation at 31 December 2021 and 2020 is set out in note 39: Fair value of financial instruments.

23. Investments in group undertakings

	AIB UK	
	2021	2020
	£m	£m
At 1 January	**1**	1
Reversal of impairment in subsidiaries	**—**	—
At 31 December	**1**	1

The subsidiary undertakings at 31 December 2021:

Subsidiary name	Year end	Nature of business	Place of incorporation	Registered office
First Trust Financial Services Limited	31 December	Financial services	Northern Ireland	92 Ann Street, Belfast, BT1 3HH, Northern Ireland.
First Trust Financial Planning Limited	31 December	Financial services	Northern Ireland	92 Ann Street, Belfast, BT1 3HH, Northern Ireland.
Aberco Limited	31 December	Property investment	Northern Ireland	92 Ann Street, Belfast, BT1 3HH, Northern Ireland.
AIB Joint Ventures Limited	31 December	Investment	England and Wales	St. Helen's, 1 Undershaft, London, EC3A 8AB, England.
First Trust Leasing No.4 (Northern Ireland) Limited	31 December	Leasing	Northern Ireland	92 Ann Street, Belfast, BT1 3HH, Northern Ireland.
AIB Pensions UK Limited	31 December	Dormant company	England and Wales	First Floor, Trident House, 42-48 Victoria Street, St. Albans, Hertfordshire, AL1 3HZ, England.

AIB UK holds 100% of the ordinary shares of the companies listed, with the exception of AIB Pensions UK Limited, in which it holds 70% of the ordinary shares.

Aberco Limited had ceased trading and was dissolved on 4 January 2022.

AIB Pensions UK Limited has availed of the exemption from audit under section 480 of the Companies Act 2006.

As at 31 December 2021, AIB UK Group held no investments in associated undertakings (2020: 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 2021, a dividend of £3m was received from First Trust Leasing No.4 (Northern Ireland) Limited.

In 2020, a dividend of £6.7m was received from Aberco Limited and £5.7m from AIB Joint Ventures Limited

Impairment of subsidiary undertakings

There was no impairment charged on the investments in subsidiaries in 2021 (2020: £nil).

24. Intangible assets

	AIB UK Group & AIB UK			
	2021			
	Software externally purchased £m	Software internally generated £m	Software under construction £m	Total £m
Cost				
At 1 January	2	50	1	53
Additions	—	3	1	4
Amounts written-off[1]	—	(8)	—	(8)
At 31 December	2	45	2	49
Amortisation/impairment				
At 1 January	2	26	—	28
Amortisation for the year	—	8	—	8
Amounts written-off[1]	—	(8)	—	(8)
At 31 December	2	26	—	28
Carrying value at 31 December	—	19	2	21

The additions, in 2021, to internally generated software primarily relate to System and Controls Remediation Programmes. The software under construction balance primarily relates to the NI Mobile upgrade.

	AIB UK Group & AIB UK			
	2020			
	Software externally purchased £m	Software internally generated £m	Software under construction £m	Total £m
Cost				
At 1 January	2	40	6	48
Additions	—	5	—	5
Transfers in/(out)	—	5	(5)	—
At 31 December	2	50	1	53
Amortisation/impairment				
At 1 January	2	12	—	14
Amortisation for the year	—	9	—	9
Impairment for the year[2]	—	5	—	5
At 31 December	2	26	—	28
Carrying value at 31 December	—	24	1	25

(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 income statement.

The additions and transfers in 2020 in internally generated software relate to various programmes including the UK IRB and FCA High Cost of Credit Programmes. Software under construction balance relates to the System and Controls Remediation programme. The impairment charge of £5m relates to assets that are deemed obsolete.

All intangible assets at 31 December 2021 and 2020 have finite useful lives.

Notes to the financial statements

25. Property, plant and equipment

	AIB UK Group and AIB UK						
	2021						
	Owned assets					Leased assets	
	Property			Assets under construction	Equipment	Right-of-use assets	Total
	Freehold	Long Leasehold	Leasehold under 50 years			Property	
	£m	£m	£m	£m	£m	£m	£m
Cost							
At 1 January	15	1	8	2	18	26	70
Transfers in/(out)	1	—	—	(2)	1	—	—
Additions	3	—	—	—	—	4	7
Remeasurements	—	—	—	—	—	(4)	(4)
Amounts written-off[1]	(1)	(1)	(2)	—	(3)	(1)	(8)
At 31 December	18	—	6	—	16	25	65
Depreciation and impairment							
At 1 January	2	1	4	—	13	11	31
Depreciation charge for the year	1	—	1	—	1	3	6
Impairment charge for the year[2]	—	—	1	—	1	3	5
Amounts written-off[1]	(1)	(1)	(2)	—	(3)	(1)	(8)
At 31 December	2	—	4	—	12	16	34
Carrying value at 31 December	16	—	2	—	4	9	31

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

The net book value of property occupied by AIB UK Group for its own activities at 31 December 2021 was £18m (2020: £17m). There were no branch properties sold during 2021 (2020: nil).

The impairment charge of £5m relates to properties, and to equipment inside them, that were vacated during the year or will be vacated in the foreseeable future as part of the restructure of the business.

The accounting policy on the impairment of property, plant and equipment can be found in note 1.24.

	AIB UK Group and AIB UK						
	2020						
	Owned assets					Leased assets	Total
	Property			Assets under construction	Equipment	Right-of-use assets	
	Freehold	Long leasehold	Leasehold under 50 years			Property	
	£m	£m	£m	£m	£m	£m	£m
Cost							
At 1 January	10	1	8	1	15	30	65
Additions	5	—	1	1	3	—	10
Remeasurements	—	—	—	—	—	(4)	(4)
Disposals	—	—	(1)	—	—	—	(1)
At 31 December	15	1	8	2	18	26	70
Depreciation and impairment							
At 1 January	2	—	3	—	11	4	20
Depreciation charge for the year	—	—	1	—	1	4	6
Impairment charge for the year[(1)]	—	1	1	—	1	3	6
Disposals	—	—	(1)	—	—	—	(1)
At 31 December	2	1	4	—	13	11	31
Carrying value at 31 December	13	—	4	2	5	15	39

[(1)]Included in 'Impairment and depreciation of property, plant and equipment' in the income statement.

The impairment charge of £6m relates to properties, and to equipment inside them, that were vacated during the year or will be vacated in the foreseeable future as part of the restructure of the business.

Future capital expenditure

Future capital expenditure relates to both property, plant and equipment and intangible assets. There is £nil (2020: £nil) estimated outstanding commitments for capital expenditure not provided for in the financial statements.

Capital expenditure authorised but not yet contracted for is £0.7m (2020: £0.2m).

Leased Assets
Property leases

AIB UK Group leases property for its offices and retail branch outlets. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Most of these leases carry statutory renewal rights, or include an option to renew the lease for an additional period after the end of the contract term. Where AIB UK Group is likely to exercise these options, this has been taken into account in determining the lease liability and the right-of-use asset.

A number of the leased branches were identified for exit as part of the strategic restructuring of the business in 2020. The lease liability for these properties was remeasured at 31 December 2021 resulting in a reduction of £nil in the liability (2020: £4m) (see note 31) and a £4m reduction in the cost of the related ROU assets (2020: £4m). In addition, the ROU assets were impaired by £3m (2020: £3m) and property and equipment by a further £2m (2020: £3m) in relation to the property restructuring.

Finance lease commitments

There are a small number of obligations under finance leases where AIB UK Group and AIB UK is the lessee. Both the total future payments and the total present value are de minimis.

Lease liabilities

A maturity analysis of lease liabilities is shown in note 31.

26. Other assets

	AIB UK Group		AIB UK	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Items in transit	**8**	9	**8**	9
Other debtors	**6**	6	**6**	5
	14	15	**14**	14

27. Deferred taxation

	AIB UK Group & AIB UK	
	2021	2020
	£m	£m
Deferred tax assets		
Unutilised tax losses	**164**	79
Cash flow hedges	**11**	—
Other	**12**	9
Total gross deferred tax assets	**187**	88
Deferred tax liabilities		
Retirement benefits	**(52)**	(38)
Cash flow hedges	**—**	(12)
Total gross deferred tax liabilities	**(52)**	(50)
Net deferred tax assets	**135**	38
Represented on the statement of financial position:		
Deferred tax assets	**148**	53
Deferred tax liabilities	**(13)**	(15)

Analysis of movements in deferred taxation

	2021	2020
	£m	£m
At 1 January	**38**	46
Deferred tax through other comprehensive income	**9**	(3)
Income statement - continuing operations (note 13)	**88**	(5)
At 31 December	**135**	38

AIB UK Group's accounting policy for deferred tax is set out in note 1.11.

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 33% (2020: 27%), except for deferred tax on pre 2015 unutilised tax losses which is recognised at the relevant tax rate each year. The UK's main rate of corporation tax will increase from 19% to 25% with effect from 1 April 2023. This change was introduced by the Finance Act 2021 which was enacted on the 10 June 2021. The deferred tax asset at 31 December 2021 has been calculated based on an aggregation of a rate of 25% and the additional 8% of tax suffered in relation to the banking surcharge.

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.

Notes to the financial statements

In assessing future profitability, the Board has considered a range of positive and negative evidence for this purpose. The principal positive evidence and factors include:
- AIB UK Group returned to profitability in 2021, generating a pre-tax profit of £89m;
- AIB UK Group has achieved pre-tax profits each year from 2013 to 2019 and has a sustained history of long-term positive earnings prior to pre-tax losses, incurred in 2010-2012, and prior to 2020. The losses in 2010-2012 were driven by the financial crash and the loss in 2020 was due to higher ECLs during the COVID-19 pandemic which are not expected to affect future profitability;
- AIB UK Group implemented a revised strategy and reorganised structure during 2021 to focus on delivery. Key parts of the strategy have been achieved in 2021 including the sale of the first tranche of AIB GB SME loans, a reduction in the number of branches operating in NI and GB and the exit of 189 staff in 2021 under the voluntary severance programme;
- increased profitability forecast for AIB UK Group for 2022 and 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;
- uncertainty continues around the long-term impact of the COVID-19 pandemic on the UK, Irish and global economies and business in a post COVID-19 environment. Any further restrictions implemented by the UK government may impact negatively on the UK economy;
- the interest rate environment and planned new lending, as a result of the ongoing implementation of a revised strategy, may not increase within the timeframes and amounts currently forecast;
- the difficulty of accurately predicting future revenues; and
- the absolute level of the deferred tax asset compared to the level of equity and the quantum of profits required to utilise the asset.

The Board has considered all these factors and has determined that recognition of the AIB UK deferred tax asset should continue to be restricted to the amount projected to be realised within fifteen years. The Board has recognised the current uncertainties in longer term profitability forecasting and, given the early stage of implementation of the new AIB UK strategy at 31 December 2021, has based the forecast taxable profits on those directly supported by two years of the AIB UK Group Business Plan with minimal growth forecast for the longer term. As a result, an amount of £552m (2020: £482m) of deferred tax assets relating to unutilised tax losses has not been recognised in the financial statements.

Sensitivity of the deferred tax asset to changes in assumptions

The measurement of the deferred tax asset is dependent on judgement as to the period of recoverability and estimates of projected future income. If future profits or subsequent forecasts differ from current forecasts an adjustment may be required to the deferred tax asset. This could result in a material impact to the income statement in future years. The sensitivity of the deferred tax asset to changes in forecasts and assumptions was considered.

- Change in profit forecast assumption: If the profitability forecast for 2024 was assumed to be 10% higher (or lower) than 2023 forecast profitability, and the growth rate from 2025 onwards maintained at 0%, the deferred tax asset balance at 31 December 2021 would increase (or decrease) by £16m to £180m (or £148m).
- Change in profit growth assumption: 0% growth in profits has been assumed from 2024 onwards. If this assumption was changed to 2% growth for all years from 2024 to 2036, while maintaining a 15 year restriction and other base assumptions, the deferred tax asset balance at 31 December 2021 would increase by £23m to £187m.
- No restriction on the period of recognition: If no restriction to the period of recognition of 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 63 years from 31 December 2021. 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 2021 by £59m.

The deferred tax asset due after more than one year is £160m (2020: £79m).

Notes to the financial statements

28. Retirement benefits

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

Defined contribution scheme

Employees who joined AIB UK Group after December 1997 joined on a defined contribution basis with an enhanced matched contribution scheme being available to them from 1 January 2009. When the UK defined benefit scheme closed to future accrual on 31 December 2013, all eligible employees from the defined benefit scheme became members of the UK defined contribution scheme. The defined contribution scheme has a standard employer contribution rate of 10% plus an additional matched employer contribution, subject to total limits on age bands of 12%, 15% or 18%. For members who joined between December 1997 and 1 January 2009, and who did not opt to join the enhanced matched contribution scheme, the standard employer contribution rate is 5%.

Defined contribution members accrue benefits under S2P (the State Second Pension) and AIB UK Group also pays an amount for Permanent Health Insurance in respect of these members.

The cost of the defined contribution scheme for 2021 was £8m (2020: £9m) 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 2021 is 19 years (2020: 19 years).

(a) Governance

The trustees of the UK Scheme are ultimately responsible for the governance of the scheme.

(b) Risks

The risks associated with the UK Scheme include:

– Market risk - where the value of the pension scheme assets may decline or their investment return may reduce due to market movements. This risk was reduced in December 2019 when the UK Scheme investments were replaced with two insurance policies.
– Actuarial risk - where the value of the UK Scheme liabilities may increase due to changes in the actuarial assumptions. This includes financial assumptions, such as discount rates and inflation, and demographic assumptions on life expectancy.

AIB UK Group significantly reduced its exposure to risks from the UK Scheme through new funding arrangements that were put in place in December 2019.

(c) Valuations

Independent actuarial valuations of the defined benefit scheme are carried out on a triennial basis by Mercer Limited, actuaries and consultants. The most recent valuation is being carried out as at 31 December 2020 and is expected to be 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 within four years, 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 2021, which resulted in a write down of the value of scheme assets through OCI.

Notes to the financial statements

Asset backed funding

In October 2013, the Parent Group agreed with the trustees of the UK Scheme a restructure of the funding of the deficit in the UK Scheme through an asset backed funding plan. The Parent Group established a pension funding partnership, AIB PFP Scottish Limited Partnership ('the SLP'), to which a portfolio of loans was transferred from another Parent Group entity, UKLM, for the purpose of ring-fencing the repayments on these loans to fund future deficit payments of the UK Scheme. The assets ring-fenced for this purpose entitled the UK Scheme to an expected income payable quarterly from 1 January 2016 to 31 December 2032, with a potential termination payment in 2032 of up to £60m.

The general partner in the partnership, AIB PFP (General Partner) Limited, which is an indirect subsidiary of AIB plc, has controlling power over the partnership. AIB UK Group has a junior interest in the SLP to enable payments from the SLP to the UK Scheme to be paid through the Company.

The majority of the risks and rewards are borne by the Parent Group as, while the UK Scheme has a priority right to the cash flows from the partnership, it is expected that the majority of and any variability in these cash flows will be recovered by the Parent Group through UKLM's junior partnership interest. As UKLM continues to bear substantially all the risks and rewards of the loans, the loans are not derecognised from UKLM's balance sheet and accordingly, the Parent Group has determined that the SLP should be consolidated into the Parent Group.

(e) Contributions

The new funding plan agreed in December 2019 entitles the UK Scheme to annual contributions of £19m per annum for five years from 1 January 2020 to 31 December 2024, with a final contribution of £31m also payable in 2024. Part of these contributions is being utilised to convert the deferred APP to a buy-in each year, with full buy-in expected to be achieved by the end of 2024. An additional contribution of £12m was received by the UK Scheme in January 2020 to fund the purchase of the PBI and APP insurance policies.

The SLP remains in place to fund the contributions required under the new agreements.

(f) Administration expenses

From 1 May 2019 the UK Scheme administration expenses have been paid from the scheme assets. A £2m charge (2020: £2m) is included in the valuation of the UK Scheme assets and recognised in Pension costs within Administrative expenses.

(g) Past service costs

An amount of £1m was charged to the income statement in the year ended 31 December 2020, when the UK Scheme equalised certain benefits as a result of the High Court ruling in November 2020 on Guaranteed Minimum Pensions equalisation. There were no past service costs in the year ended 31 December 2021.

(h) Benefits paid

The UK Scheme allows participants an option for the payment before retirement of a lump sum transfer from UK Scheme assets to another pension arrangement of the individual's choice, in full satisfaction of the retirement benefit entitlement under the UK Scheme. During 2021 £8m (2020: £14m) of the benefits paid from the UK Scheme related to lump sum transfer values taken under the terms of the UK Scheme.

Notes to the financial statements

(i) 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 2021 and 2020.

	2021			2020		
	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	(971)	1,113	142	(886)	1,057	171
Included in income statement						
Interest (cost)/income	(13)	15	2	(18)	22	4
Administration expenses	—	(2)	(2)	—	(2)	(2)
Past service costs	—	—	—	(1)	—	(1)
	(13)	13	—	(19)	20	1
Included in other comprehensive income						
Remeasurements gain/(loss):						
- Actuarial gain/(loss) arising from:						
- Experience adjustments	(6)	—	(6)	14	—	14
- Changes in demographic assumptions	3	—	3	2	—	2
- Changes in financial assumptions	4	—	4	(124)	—	(124)
- Return on scheme assets excluding SLP	—	(5)	(5)	—	76	76
- Contribution of asset from SLP to scheme assets	—	19	19	—	31	31
- Return on SLP assets	—	4	4	—	(29)	(29)
	1	18	19	(108)	78	(30)
Other						
Benefits paid	40	(40)	—	42	(42)	—
At 31 December	(943)	1,104	161	(971)	1,113	142

Notes to the financial statements

(j) Fair value of plan assets

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

	2021		2020	
	Value £m	Plan assets %	Value £m	Plan assets %
Pensioner buy-in	**735**	**67**	709	64
Assured payment policy	**237**	**21**	277	25
Cash	**8**	**1**	9	1
SLP assets	**124**	**11**	118	10
Fair value of scheme assets at 31 December	**1,104**	**100**	1,113	100
Actuarial value of liability	**(943)**		(971)	
Surplus in scheme	**161**		142	
Related deferred tax liability (note 27)	**(52)**		(38)	
Net pension asset	**109**		104	

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 2021 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 33% (2020: 27%) being the expected corporation tax rate of 25% plus the UK bank surcharge of 8%.

Excluding the benefit of the UK Scheme's recognition of the SLP assets, the net defined benefit asset at 31 December 2021 was £37m (2020: £24m).

(k) 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	2021 %	2020 %
Rate of increase of pensions in payment	**3.3**	2.9
Discount rate	**1.8**	1.4
Inflation assumptions		
– Retail Price Index	**3.3**	2.9
– Consumer Price Index	**2.7**	2.3

The discount rate used to value the liability is set by reference to high quality AA corporate bond yields, in accordance with IAS 19.

(l) Demographic assumptions

The mortality tables used for 2021 and 2020 are based on data collected by the Continuous Mortality Investigation ('CMI') 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 2021 and 2020 are as set out below.

	Retiring today at age 63		Retiring at age 63, currently aged 53	
Life expectancy from age 63	**2021**	2020	**2021**	2020
Male	**25.0**	25.0	**25.4**	25.4
Female	**26.8**	26.8	**27.8**	27.7

(m) Sensitivity of assumptions

Defined benefit obligation

The following table shows the sensitivity of the defined benefit obligation valuation of £943m at 31 December 2021 to changes in the key financial and demographic assumptions. The changes in assumptions have been considered independently of each other.

	Increase/(decrease) in defined benefit obligation of £943m	
	if increase in assumption	if decrease in assumption
Assumption	**£m**	**£m**
Discount rate (0.25% movement)	**(43)**	**45**
Inflation (0.25% movement)	**43**	**(40)**
Mortality (1 year movement)	**41**	**(40)**

Assured payment policy

The following table shows the sensitivity of the APP valuation of £237m at 31 December 2021 to changes in the discount rate.

	Increase/(decrease) in APP valuation of £237m	
	if increase in assumption	if decrease in assumption
Assumption	**£m**	**£m**
Discount rate (0.25% movement)	**(15)**	**16**

SLP assets

The following table shows the sensitivity of the SLP assets valuation of £124m at 31 December 2021 to changes in the discount rate.

	Increase/(decrease) in SLP valuation of £124m	
	if increase in assumption	if decrease in assumption
Assumption	**£m**	**£m**
Discount rate (0.25% movement)	**(1)**	**1**

Notes to the financial statements

29. Deposits by banks

	AIB UK Group & AIB UK	
	2021	2020
	£m	£m
Other borrowings from banks	**434**	410
Amounts include:		
Due to AIB plc and fellow subsidiaries	**184**	156

At 31 December 2021 and 2020, there were no securities sold under agreements to repurchase. £250m was borrowed from the Bank of England in February 2018 under the Term Funding Scheme, secured against pre-positioned collateral.

30. Customer accounts

	AIB UK Group		AIB UK	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Current accounts	**7,062**	6,943	**7,062**	6,943
Demand deposits	**1,848**	1,665	**1,858**	1,677
Time deposits	**1,178**	1,371	**1,178**	1,371
	10,088	9,979	**10,098**	9,991
Amounts include:				
Due to AIB plc and fellow subsidiaries	**43**	39	**53**	51

31. Lease liabilities

	AIB UK Group & AIB UK	
	2021	2020
	£m	£m
At 31 December	**17**	18
Maturity analysis - contractual undiscounted cash flows:		
Not later than one year	**4**	4
Later than one year and not later than five years	**10**	12
Later than five years	**4**	4
Total undiscounted lease liabilities at end of year	**18**	20

Analysis of movements in lease liabilities

	2021 £m	2020 £m
At 1 January	**18**	25
Lease payments[1]	**(4)**	(4)
Interest expense[1]	**1**	1
Additions	**3**	—
Disposals	**(1)**	—
Remeasurement	**—**	(4)
At 31 December	**17**	18

[1]Repayment of principal portion of the lease liabilities amounted to £3m (2020: £3m), i.e. lease payments net of interest expense.

The remeasurement in 2020 of £4m relates to leases for properties that AIB UK is exiting as part of the restructuring of the business.

32. Other liabilities

	AIB UK Group & AIB UK	
	2021 £m	2020 £m
Notes in circulation[1]	**80**	130
Items in transit	**26**	1
VAT payable	**—**	1
Amounts due on disposal of loan portfolio (note 15)	**22**	—
Other creditors	**46**	39
	174	171

[1]The Bank announced in February 2019 its intention to cease issuing bank notes as a local currency in Northern Ireland (under the name of 'First Trust Bank'). Since this announcement the Bank has been withdrawing the bank notes from circulation and the notes cease to be legal currency at midnight on 30 June 2022.

33. Provisions for liabilities and commitments

AIB UK Group

	Customer redress	Restructuring	Litigation	Onerous contracts	Property dilapidations	ECLs on off-balance sheet items	Total
	2021						
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
	(a)	(b)	(c)	(d)	(e)	(f)	
At 1 January 2021	**7**	**25**	**5**	**1**	**1**	**10**	**49**
Amounts charged/ (released) to the income statement[(1)]	**—**	**16**	**(3)**	**—**	**—**	**1**	**14**
Provisions utilised	**(5)**	**(24)**	**—**	**—**	**—**	**—**	**(29)**
At 31 December 2021	**2**	**17**	**2**	**1**	**1**	**11**	**34**

AIB UK Group

	Customer redress	Restructuring	Litigation	Onerous contracts	Property dilapidations	ECLs on off-balance sheet items	Total
	2020						
	£m	£m	£m	£m	£m	£m	£m
	(a)	(b)	(c)	(d)	(e)	(f)	
At 1 January 2020	7	—	5	1	1	6	20
Amounts charged/ (released) to the income statement[(1)]	4	25	1	—	—	4	34
Provisions utilised	(4)	—	(1)	—	—	—	(5)
At 31 December 2020	7	25	5	1	1	10	49

[(1)]Included in note 10: Operating expenses, other than 'ECLs on off-balance sheet items' which are included in 'Net credit impairment charge' (note 12).

AIB UK

	Customer redress	Restructuring	Litigation	Onerous contracts	Property dilapidations	ECLs on off-balance sheet items	Total
	2021						
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
	(a)	(b)	(c)	(d)	(e)	(f)	
At 1 January 2021	**6**	**25**	**4**	**1**	**1**	**10**	**47**
Amounts charged/ (released) to the income statement	**—**	**16**	**(2)**	**—**	**—**	**1**	**15**
Provisions utilised	**(5)**	**(24)**	**—**	**—**	**—**	**—**	**(29)**
At 31 December 2021	**1**	**17**	**2**	**1**	**1**	**11**	**33**

	AIB UK						
							2020
	Customer redress	Restructuring	Litigation	Onerous contracts	Property dilapidations	ECLs on off-balance sheet items	Total
	£m	£m	£m	£m	£m	£m	£m
	(a)		(c)	(d)	(e)	(f)	
At 1 January 2020	5	—	4	1	1	6	17
Amounts charged/ (released) to the income statement	4	25	1	—	—	4	34
Provisions utilised	(3)	—	(1)	—	—	—	(4)
At 31 December 2020	6	25	4	1	1	10	47

Notes

a) A provision is recognised for any obligation arising to refund customers for fees or charges, incurred in previous periods, where it is probable that a refund will be made and the amount can be reliably estimated. Included within customer redress at 31 December 2021 are the following provisions:

PPI provision
AIB UK Group holds a provision for PPI redress claims and associated costs. Time barring was introduced by the FCA and the deadline for submitting claims was 30 August 2019. After pay-outs of £0.04m (2020: £1m) and a release of £0.1m (2020: £nil) the provision held as at 31 December 2021 is £0.06m (2020: £0.2m). The remaining provision is expected to be utilised in 2022.

Interest Rate Hedging Products ('IRHP') Provision
After a release of £0.1m (2020: £nil), a provision of £0.1m (2020: £0.2m) was remaining at 31 December 2021 in respect of redress to customers arising from the IRHP review instigated by FCA in 2012. This provision is expected to be utilised over the next year.

Other Customer Redress Provisions
Further provisions in relation to customer mis-selling, in respect of the sale of investment products, and other potential customer redress issues are held at 31 December 2021. £5m (2020: £2m) was paid out during the year in respect of mis-selling claims and legal costs and a net £nil (2020: £4m) charged to the income statement leaving a provision of £2m at 31 December 2021 (2020: £7m). £1.7m of the provision is expected to be utilised in 2022 and the balance fully utilised in 2023.

b) A provision for restructuring costs of £17m, in relation to the implementation of a revised strategy, was held at 31 December 2021 (2020: £25m), of which £11m (2020: £19m) relates to expected costs of termination benefits for staff impacted by the reorganisation. £16m of the provision is expected to be utilised in 2022 with the remainder utilised in 2023.

c) AIB UK Group has made provision for the cost of a number of legal claims that were outstanding at 31 December 2021. Management believes the amount provided of £2m (2020: £5m) represents the most appropriate estimate of the financial impact of these cases. This provision is reviewed by management regularly and updated for changes to estimates and judgements. The current provision is expected to be utilised over the next 3 years.

d) The onerous contracts provision at 31 December 2021 of £1m (2020: £1m) relates to a number of premises that were deemed surplus to requirements and a provision was required for the costs associated with these premises. During 2021 £0.03m (2020: £nil) of the remaining onerous lease provision was utilised. The remaining provision is expected to be utilised over a period of 3 years.

e) The provision for property dilapidations relates to work that is required to be carried out on exiting certain leasehold properties to put them back to the original or agreed condition. Property dilapidations form part of the ROU asset (note 25), which is depreciated over the term of the lease, and the provision will be used to pay the end of lease obligations when exiting the property. The provision at 31 December 2021 remains at £1m (2020: £1m).

f) ECLs on off-balance sheet items consists of ECLs on loan commitments and on financial guarantee contracts as provided for under IFRS 9 *Financial Instruments* and reported within IAS 37 *Provisions for liabilities and commitments*. Loan commitments and guarantees are described and included in contingent liabilities and commitments in note 37 and the internal credit ratings of these liabilities are set out in note 21 (i). The provision at 31 December 2021 of £11m (2020: £10m) consists of ECLs on loan commitments of £9m (2020: £8m) and ECLs on financial guarantee contracts of £2m (2020: £2m). The amount charged to the income statement in 2021 of £1m (2020: £4m charge) relates to ECLs on loan commitments and is included within the Net credit impairment charge (note 12).

34. Secondary non-preferential debt

	AIB UK Group & AIB UK	
	2021	2020
	£m	£m
Secondary non-preferential debt		
£45m secondary non-preferential debt due 2022, callable 2021 from AIB plc	**—**	45
	—	45

On 31 December 2020, AIB plc issued a £45m secondary non-preferential loan to AIB UK for the purposes of meeting AIB UK MREL requirements. The loan bore interest on the outstanding nominal amount at a rate of SONIA plus a margin of 130bps, payable half-yearly in arrears.

AIB UK exercised the option to repay the secondary non-preferential debt on 31 December 2021.

35. Share capital

	AIB UK Group & AIB UK	
	2021	2020
	£m	£m
Authorised, issued and fully paid ordinary shares of £1 each	**2,384**	2,384

No ordinary shares were issued in 2021 or 2020.

AIB UK has one class of ordinary shares which carry no right to fixed income.

Other reserves

	AIB UK Group		AIB UK	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Revaluation reserves at beginning and end of year	**2**	2	**1**	1

For details regarding revaluation reserves, refer to note 1.27.

Notes to the financial statements

36. Analysis of movements in reserves and other comprehensive income

	AIB UK Group & AIB UK					
	2021			2020		
	Gross £m	Tax £m	Net £m	Gross £m	Tax £m	Net £m
Cash flow hedge reserve						
Amount removed from equity and transferred to income statement	**(11)**	**4**	**(7)**	(8)	2	(6)
Change in fair value recognised in equity	**(69)**	**19**	**(50)**	36	(10)	26
Total	**(80)**	**23**	**(57)**	28	(8)	20
Retained earnings						
Remeasurement of defined benefit asset/(liability)	**19**	**(14)**	**5**	(30)	5	(25)
Total	**19**	**(14)**	**5**	(30)	5	(25)
Other comprehensive income	**(61)**	**9**	**(52)**	(2)	(3)	(5)

37. 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	
	2021	2020
	Contract amount £m	Contract amount £m
Contingent liabilities[1]		
Guarantees and irrevocable letters of credit	**160**	162
Other contingent liabilities	**1**	43
	161	205
Commitments[2]		
Documentary credits and short-term trade related transactions	**40**	22
Undrawn credit facilities		
- One year and over	**1,271**	1,220
- Less than one year	**673**	786
	1,984	2,028
	2,145	2,233

[1] Contingent liabilities are off-balance sheet products and include guarantees, standby letters of credit and other contingent liability products such as performance bonds, contract bonds and custom bonds.

[2] A commitment is an off-balance sheet product, where there is an agreement to provide an undrawn credit facility. The contract may or may not be cancelled unconditionally at any time without notice depending on the terms of the contract.

Notes to the financial statements

For details of the internal credit ratings of contingent liabilities and commitments, see note 21, section (i).

Provisions for ECLs on loan commitments and financial guarantee contracts are set out in note 33.

Chargeback risk

AIB UK has a 16.6% equity interest (note 22), and AIB plc has a 33.3% interest, in Zolter Services d.a.c. which owns a 100% subsidiary, First Merchant Processing Ireland d.a.c. ('FMPI'), trading as AIB Merchant Services. FMPI's activities are principally focused on the provision of merchant processing services (acquiring) in respect of card transactions to merchants in Ireland, UK, Europe and a number of markets globally.

As a merchant acquirer, FMPI processes payments for point of sale and ecommerce transactions on behalf of its merchants. If a merchant fails to deliver goods or services which have been paid for by card transactions supported by FMPI, the purchaser of the goods or services may seek a refund from the merchant or raise a claim from their card issuer, also known as a 'chargeback' under VISA, MasterCard and other schemes' rules. In the event that the merchant is unwilling or unable to pay a valid chargeback, FMPI bears the potential financial loss.

In the unlikely event that FMPI is unable to meet its obligations arising from chargebacks, the exposure reverts to AIB UK and AIB plc as the principal members of the card schemes for FMPI. However an indemnity is in place whereby the owner of the remaining 50.1% of Zolter Services d.a.c. would bear 50.1% of any such potential losses and AIB plc has further indemnified AIB UK for its share of any potential chargeback losses.

Notes to the financial statements

38. Classification and measurement of financial assets and financial liabilities

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The accounting policies for financial assets in note 1.12 and financial liabilities in note 1.13 describe how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the carrying amounts of the financial assets and financial liabilities by category as defined in IFRS 9 *Financial Instruments: Recognition and Measurement* and by statement of financial position heading at 31 December 2021 and 2020.

				AIB UK Group
				2021
	Carrying amount in statement of financial position			
	At fair value through profit or loss	At fair value through other comprehensive income	At amortised cost	Total
	Mandatorily	Cash flow hedge derivatives		
	£m	£m	£m	£m
Financial assets				
Cash and balances at central banks	—	—	5,306 [1]	5,306
Items in the course of collection	—	—	3	3
Derivative financial instruments	78	13	—	91
Loans and advances to banks	—	—	637	637
Loans and advances to customers	—	—	6,198	6,198
Investment securities	40	—	—	40
Other financial assets	—	—	14	14
	118	13	12,158	12,289
Financial liabilities				
Deposits by banks	—	—	434	434
Customer accounts	—	—	10,088	10,088
Derivative financial instruments	80	48	—	128
Other financial liabilities	—	—	174	174
	80	48	10,696	10,824

[1] Includes cash on hand of £65m.

All amounts are the same for AIB UK, with the exception of customer accounts which is £10,098m in AIB UK (see note 30).

	AIB UK Group			
	2020			
	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	—	—	4,541 [1]	4,541
Items in the course of collection	—	—	4	4
Derivative financial instruments	124	57	—	181
Loans and advances to banks	—	—	583	583
Loans and advances to customers	—	—	6,857	6,857
Investment securities	34	—	—	34
Other financial assets	—	—	15	15
	158	57	12,000	12,215
Financial liabilities				
Deposits by banks	—	—	410	410
Customer accounts	—	—	9,979	9,979
Derivative financial instruments	131	11	—	142
Other financial liabilities	—	—	171	171
Secondary non-preferential debt	—	—	45	45
	131	11	10,605	10,747

[1] Includes cash on hand of £83m.

All amounts are the same for AIB UK, with the exception of other financial assets which is £14m (see note 26) and customer accounts which is £9,991m in AIB UK (see note 30).

39. Fair value of financial instruments

The term 'financial instruments' includes both financial assets and financial liabilities. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which AIB UK Group has access at that date. AIB UK Group's accounting policy for the determination of fair value of financial instruments is set out in note 1.15.

The valuation of financial instruments, including loans and advances, involves the application of judgement and estimation. Market and credit risks are key assumptions in the estimation of the fair value of loans and advances. AIB UK Group has estimated the fair value of its loans to customers taking into account market risk and the changes in credit quality of its borrowers.

Fair values are based on observable market prices where available, and on valuation models or techniques where the lack of market liquidity means that observable prices are unavailable.

The fair values of financial instruments are measured according to the following fair value hierarchy that reflects the observability of significant market inputs:

Level 1 - financial assets and liabilities measured using quoted market prices from an active market (unadjusted);
Level 2 - financial assets and liabilities measured using valuation techniques which use quoted market prices from an active market or measured using quoted market prices unadjusted from an inactive market; and
Level 3 - financial assets and liabilities measured using valuation techniques which use unobservable market inputs.

Notes to the financial statements

All financial instruments are initially recognised at fair value. Financial instruments held for trading and investment securities are subsequently measured at fair value through profit or loss. Cash flow hedge derivatives are subsequently measured at fair value through other comprehensive income.All valuations are carried out within the Finance function of AIB UK Group and valuation methodologies are validated by the independent Risk function within AIB UK Group.

The fair value information presented in this note does not purport to represent, nor should it be construed to represent, the underlying value of AIB UK Group as a going concern at 31 December 2021.

The methods used for calculation of fair value in the year to 31 December 2021 are as follows:

Financial instruments measured at fair value in the financial statements

Derivative financial instruments

The fair value of over-the-counter derivative financial instruments is estimated based on standard market discounting and valuation methodologies which use reliable observable inputs including yield curves and market rates. These methodologies are implemented by the Finance function and validated by the Risk function. Where there is uncertainty around the inputs to a derivative's valuation model, the fair value is estimated using inputs which provide AIB UK Group's view of the most likely outcome in a disposal transaction between willing counterparties in a functioning market.

Where an unobservable input is material to the outcome of the valuation, a range of potential outcomes from favourable to unfavourable is estimated.

Counterparty valuation adjustment ('CVA') and funding valuation adjustment ('FVA') are applied to all uncollateralised over-the-counter derivatives. CVA is calculated as: Expected positive exposure ('EPE') x PD x LGD. EPE profiles are generated at a counterparty netting set through simulation. PDs are derived from market based credit default swap ('CDS') information. As most counterparties do not have a quoted CDS, PDs are derived by mapping each counterparty to an index CDS credit grade. LGDs are based on the specific circumstances of the counterparty and take into account valuation of offsetting security where applicable. For unsecured counterparties, an LGD of 60% is applied.

FVA is calculated as: Expected exposure ('EE') x funding spread ('SF') 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. The application of FVA, while an overall negative adjustment, contains within it the benefit of own credit.

Investment securities

The fair value of the equity investment securities has been estimated based on expected sale proceeds. The expected sale proceeds are based on a net asset valuation of the underlying trading entity. As there is no recently available market data for a directly comparable instrument, management judgement has been applied within this valuation technique. Details of the estimates used in the fair value calculation of investment securities are set out in note 2: Critical accounting judgements and estimates.

Financial instruments not measured at fair value but with fair value information presented separately in the notes to the financial statements

Loans and advances to banks

The fair value of loans and advances to banks is estimated using discounted cash flows applying either market rates, where practicable, or rates currently offered by other financial institutions for placings with similar characteristics.

Loans and advances to customers

AIB UK Group provides lending facilities of varying rates and maturities to corporate and personal customers.

Valuation techniques are used in estimating the fair value of loans, primarily using discounted cash flows and applying market rates where practicable and taking credit risk into account.

With regard to the above valuation techniques regarding cash flows and discount rates, a key assumption for loans and advances is that the carrying amount of variable rate loans (excluding mortgage products) approximates to market value. For fixed rate loans, the fair value is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in that portfolio.

The fair value of mortgage products, including tracker mortgages, is calculated by discounting expected cash flows using discount rates that reflect the interest rate/credit risk in the portfolio.

Deposits by banks, customer accounts and secondary non-preferential debt

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

Other financial assets and other financial liabilities

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

Commitments pertaining to credit-related instruments

Details of the various credit-related commitments and other off-balance sheet financial guarantees entered into by AIB UK Group are included in note 37. Fees for these instruments may be billed in advance or in arrears on an annual, quarterly or monthly basis. In addition, the fees charged vary on the basis of instrument type and associated credit risk. As a result, it is not considered practicable to estimate the fair value of these instruments because each customer relationship would have to be separately evaluated.

The table below sets out the carrying amount and fair value of financial instruments across the three levels of the fair value hierarchy at 31 December 2021 and 2020:

	AIB UK Group				
	2021				
	Carrying amount	Fair value			
		Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m	£m
Financial assets measured at fair value					
Derivative financial instruments	91	—	35	56	91
Equity investment securities at FVTPL	40	—	—	40	40
	131	—	35	96	131
Financial assets not measured at fair value					
Cash and balances at central banks	5,306	65	5,241	—	5,306
Items in the course of collection	3	—	—	3	3
Loans and advances to banks	637	—	303	334	637
Loans and advances to customers	6,198	—	—	6,182	6,182
Other financial assets	14	—	—	14	14
	12,158	65	5,544	6,533	12,142
Financial liabilities measured at fair value					
Derivative financial instruments	128	—	113	15	128
	128	—	113	15	128
Financial liabilities not measured at fair value					
Deposits by banks	434	—	250	194	444
Customer accounts	10,088	—	—	10,087	10,087
Other liabilities	174	—	—	174	174
	10,696	—	250	10,455	10,705

	AIB UK Group				
	2020				
	Carrying amount	Fair value			
		Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m	£m
Financial assets measured at fair value					
Derivative financial instruments	181	—	63	118	181
Equity investment securities at FVTPL	34	—	—	34	34
	215	—	63	152	215
Financial assets not measured at fair value					
Cash and balances at central banks	4,541	83	4,458	—	4,541
Items in the course of collection	4	—	—	4	4
Loans and advances to banks	583	—	340	243	583
Loans and advances to customers	6,857	—	—	6,882	6,882
Other financial assets	15	—	—	15	15
	12,000	83	4,798	7,144	12,025
Financial liabilities measured at fair value					
Derivative financial instruments	142	—	142	—	142
	142	—	142	—	142
Financial liabilities not measured at fair value					
Deposits by banks	410	—	250	176	426
Customer accounts	9,979	—	—	9,987	9,987
Other liabilities	171	—	—	171	171
Secondary non-preferential debt	45	—	—	45	45
	10,605	—	250	10,379	10,629

Significant transfers between Level 1 and Level 2 of the fair value hierarchy

There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy for the years ended 31 December 2021 and 2020.

Notes to the financial statements

Reconciliation of balances in Level 3 of the fair value hierarchy

	AIB UK Group				
	2021				
	Financial assets			Financial liabilities	
	Derivatives	Investment securities Equities at FVTPL	Total	Derivatives	Total
	£m	£m	£m	£m	£m
At 1 January 2021	118	34	152	—	—
Transfers into/out of level 3[(1)]	—	—	—	—	—
Total gains or losses in:					
Profit or loss:					
Net trading income	(62)	—	(62)	15	15
Net change in FVTPL	—	6	6	—	—
At 31 December 2021	56	40	96	15	15

	AIB UK Group				
	2020				
	Financial assets			Financial liabilities	
	Derivatives	Investment securities Equities at FVTPL	Total	Derivatives	Total
	£m	£m	£m	£m	£m
At 1 January 2020	86	32	118	—	—
Transfers into/out of level 3[(1)]	—	—	—	—	—
Total gains or losses in:					
Profit or loss:					
Net trading income	32	—	32	—	—
Net change in FVTPL	—	2	2	—	—
At 31 December 2020	118	34	152	—	—

[(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 2021 £m	Fair value 31 December 2020 £m	Valuation technique		Significant unobservable input	Range of estimates 31 December 2021	Range of estimates 31 December 2020
Derivatives	Asset	56	118	CVA	(1)	LGD	40% - 58%	43% - 62%
	Liability	15	—				(Base 48%)	(Base 52%)
				CVA		PD	0.6% - 3.3%	0.5% - 3.1%
							(Base 1.4% 1 year PD)	(Base 1.3% 1 year PD)
				FVA	(1)	Funding spreads	(0.2%) - 0.3%	(0.2%) - 0.3%
Investment securities - equity	Asset	40	34	Expected market value		Net asset value (2020: Revenue multiplier)	€284m	x 3.5

(1) The fair value measurement sensitivity to unobservable inputs at 31 December 2021 ranged from (i) negative £5m to positive £2m for CVA (31 December 2020: negative £10m to positive £4m) and (ii) negative £1m to positive £nil for FVA (31 December 2020: negative £2m to positive £1m).

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 2021 and 2020:

2021	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable £m	Unfavourable £m	Favourable £m	Unfavourable £m
Classes of financial assets				
Derivative financial instruments	2	(6)	—	—
Investment securities - equity	4	(6)	—	—
Total	6	(12)	—	—

2020	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable £m	Unfavourable £m	Favourable £m	Unfavourable £m
Classes of financial assets				
Derivative financial instruments	5	(12)	—	—
Investment securities - equity	14	(7)	—	—
Total	19	(19)	—	—

40. Interest rate sensitivity

Structural interest rate risk arises in AIB UK Group's banking business where assets and liabilities have different repricing dates. Part of AIB UK Group's return on financial instruments is obtained from controlled mismatching of the dates on which the instruments mature or, if earlier, the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates. The net interest rate sensitivity of AIB UK Group at 31 December 2021 and 2020 is illustrated in the following tables. The tables set out details of those assets and liabilities whose values are subject to change as interest rates change within each contractual repricing time period. Details regarding assets and liabilities which are not sensitive to interest rate movements are also included.

The tables show the sensitivity of the statement of financial position at one point in time and are not necessarily indicative of positions at other times. In developing the classifications used in the tables it has been necessary to make certain assumptions and approximations in assigning assets and liabilities to different repricing categories. Non-interest bearing amounts relating to loans and advances to customers include ECL allowances. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and maturity date. Transactions without defined repricing terms are shown according to management expectations. Contractual repricing does not illustrate the potential impact of early repayment or withdrawal. Positions may not be reflective of those in adjacent and/or future periods. Major changes can be made rapidly as the market outlook fluctuates. Further, significant variability may exist within the repricing periods presented.

Interest rate sensitivity

										2021
	0-1 Mths	1-3 Mths	3-12 Mths	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	5+ Yrs	Non-interest bearing	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets										
Loans and advances to banks	518	1	—	—	—	—	—	—	118	637
Loans and advances to customers	4,325	1,099	376	173	114	138	142	57	(226)	6,198
Investment securities	—	—	—	—	—	—	—	—	40	40
Other assets	5,241	—	—	—	—	—	—	—	572	5,813
Total assets	10,084	1,100	376	173	114	138	142	57	504	12,688
Liabilities										
Deposits by banks	114	263	7	7	7	7	7	22	—	434
Customer accounts	6,904	206	436	123	—	—	—	—	2,419	10,088
Other liabilities	—	—	—	—	—	—	—	—	374	374
Shareholders' equity	—	—	—	—	—	—	—	—	1,792	1,792
Total liabilities and shareholders' equity	7,018	469	443	130	7	7	7	22	4,585	12,688
Derivative financial instruments affecting interest rate sensitivity	1,351	639	(296)	(200)	(132)	(108)	(120)	(1,134)	—	
Interest sensitivity gap	1,715	(8)	229	243	239	239	255	1,169	(4,081)	
Cumulative interest sensitivity gap	1,715	1,707	1,936	2,179	2,418	2,657	2,912	4,081	—	

	0-1 Mths £m	1-3 Mths £m	3-12 Mths £m	1-2 Yrs £m	2-3 Yrs £m	3-4 Yrs £m	4-5 Yrs £m	5+ Yrs £m	Non-interest bearing £m	2020 Total £m
Assets										
Loans and advances to banks	447	—	—	—	—	—	—	—	136	583
Loans and advances to customers	3,695	2,306	548	150	135	114	100	83	(274)	6,857
Investment securities	—	—	—	—	—	—	—	—	34	34
Other assets	4,458	—	—	—	—	—	—	—	578	5,036
Total assets	8,600	2,306	548	150	135	114	100	83	474	12,510
Liabilities										
Deposits by banks	332	9	6	9	8	7	7	32	—	410
Customer accounts	6,754	238	487	249	—	—	—	—	2,251	9,979
Other liabilities	—	45	—	—	—	—	—	—	402	447
Shareholders' equity	—	—	—	—	—	—	—	—	1,674	1,674
Total liabilities and shareholders' equity	7,086	292	493	258	8	7	7	32	4,327	12,510
Derivative financial instruments affecting interest rate sensitivity	(989)	2,385	(64)	(291)	(74)	(75)	(92)	(800)	—	
Interest sensitivity gap	2,503	(371)	119	183	201	182	185	851	(3,853)	
Cumulative interest sensitivity gap	2,503	2,132	2,251	2,434	2,635	2,817	3,002	3,853	—	

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	2021 £m	2020 £m
+ 100 basis point parallel move in all interest rates	56	63
- 100 basis point parallel move in all interest rates	(58)	(54)

Interest rate benchmark reform

Authorities and regulators have been facilitating the market's transition from interbank offered rates, referred to as "IBOR" benchmark rates (e.g. LIBOR), to alternative risk free rates ('RFRs') by year ended 2021. In line with regulatory guidance and transformed market practice, SONIA (Sterling Overnight Index Average) has effectively replaced GBP LIBOR and SOFR (Secured Overnight Financing Rate) has been adopted to replace USD LIBOR in pricing new loans.

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

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

AIB UK Group proactively engaged with its customer base and market counterparties to complete the repapering of substantially all GBP LIBOR contracts by 31 December 2021, with a minimum number transitioning to synthetic LIBOR at that point. New RFR lending products have also been introduced and adopted across AIB UK Group's key currencies. Following the conclusion of the formal Programme, residual IBOR transition activities will be undertaken by the relevant business and support functions under established procedures. In particular, the focus will move to proactively managing the £57m of USD LIBOR lending and £57m of USD LIBOR related derivatives (as at 31 December 2021).

Details on AIB UK Group's adoption of the 'Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform' can be found in note 1.17.

41. Statement of cash flows - additional information

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

	AIB UK Group		AIB UK	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Loss allowance on financial assets	**(5)**	178	**(5)**	178
Loss on disposal of property	**3**	—	**3**	—
Net gain on equity investments measured at FVTPL	**(6)**	(2)	**(6)**	(2)
Provision for liabilities and commitments	**13**	30	**13**	30
Depreciation, amortisation and impairment	**19**	26	**19**	26
Dividends received from subsidiary undertakings	**—**	—	**(3)**	(12)
Retirement benefits - defined benefit income	**—**	(1)	**—**	(1)
(Increase)/decrease in prepayments and accrued income	**(6)**	2	**(6)**	2
Increase/(decrease) in accruals and deferred income	**1**	(4)	**1**	(4)
Loss/(profit) on disposal of loans and advances to customers	**8**	(3)	**8**	(3)
Total non-cash items	**27**	226	**24**	214

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	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Cash and balances with central banks	**5,306**	4,541	**5,306**	4,541
Loans and advances to banks[(1)]	**159**	177	**159**	177
Deposits by banks	**(112)**	(56)	**(112)**	(56)
Cash and cash equivalents	**5,353**	4,662	**5,353**	4,662

[(1)]Excluding regulatory balances with the Bank of England.

Notes to the financial statements

42. Financial assets and liabilities by contractual residual maturity

	On demand	Less than 3 months, but not on demand	3 months to 1 year	1 to 5 years	Over 5 years	2021 Total
	£m	£m	£m	£m	£m	£m
Financial assets						
Derivative financial instruments[1]	—	5	3	16	67	91
Loans and advances to banks	500	137	—	—	—	637
Loans and advances to customers[2]	237	168	480	3,404	2,110	6,399
Other financial assets	—	14	—	—	—	14
	737	324	483	3,420	2,177	7,141
Financial liabilities						
Deposits by banks	112	5	2	265	50	434
Customer accounts	8,904	609	443	131	1	10,088
Derivative financial instruments[1]	—	5	5	13	105	128
Other financial liabilities	174	—	—	—	—	174
	9,190	619	450	409	156	10,824

	On demand	Less than 3 months, but not on demand	3 months to 1 year	1 to 5 years	Over 5 years	2020 Total
	£m	£m	£m	£m	£m	£m
Financial assets						
Derivative financial instruments[1]	—	2	4	38	137	181
Loans and advances to banks	555	28	—	—	—	583
Loans and advances to customers[2]	217	204	318	3,839	2,524	7,102
Other financial assets	—	15	—	—	—	15
	772	249	322	3,877	2,661	7,881
Financial liabilities						
Deposits by banks	56	25	—	259	70	410
Customer accounts	8,606	623	495	254	1	9,979
Derivative financial instruments[1]	—	1	3	21	117	142
Secondary non-preferential debt	—	—	—	45	—	45
Other financial liabilities	171	—	—	—	—	171
	8,833	649	498	579	188	10,747

[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.

43. Financial liabilities by undiscounted contractual maturity

The table below shows the undiscounted cash outflows, relating to principal and interest, on the AIB UK Group financial liabilities on the basis of their earliest possible contractual maturity. The expected cash outflows on some financial liabilities, for example customer demand deposits, vary significantly from the contractual cash outflows. In the daily management of liquidity risk, AIB UK Group adjusts the contractual outflows on customer deposits to reflect inherent stability of these deposits. Offsetting the liability outflows are cash inflows from the assets on the statement of financial position. Additionally, AIB UK Group holds a stock of high quality liquid assets (as outlined in note 17), which are held for the purpose of covering unexpected cash outflows.

						2021
	On demand	**Less than 3 months, but not on demand**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Financial liabilities						
Deposits by banks	**112**	**5**	**2**	**266**	**50**	**435**
Customer accounts	**8,904**	**610**	**445**	**132**	**2**	**10,093**
Derivative financial instruments	**—**	**6**	**11**	**71**	**45**	**133**
Other liabilities	**174**	**—**	**—**	**—**	**—**	**174**
	9,190	**621**	**458**	**469**	**97**	**10,835**

						2020
	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 banks	56	25	—	259	70	410
Customer accounts	8,606	624	499	255	1	9,985
Derivative financial instruments	—	9	20	66	48	143
Other liabilities	171	—	—	—	—	171
Secondary non-preferential debt	—	—	—	45	—	45
	8,833	658	519	625	119	10,754

The table below shows the contractual expiry by maturity of AIB UK Group's contingent liabilities and commitments.

	2021	2020
	On demand	On demand
	£m	£m
Contingent liabilities	**161**	205
Commitments	**1,984**	2,028
	2,145	2,233

AIB UK Group expects that not all of the contingent liabilities or commitments will be drawn before expiry date.

44. 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:

	2021			2020		
	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	5	14	0.8	6	21	1.3

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 2021 and 2020.

These loans do not involve more than the normal risk of repayment or present other unfavourable features. No guarantees were given or received in relation to these transactions.

(b) Compensation of key management personnel

The table below outlines the compensation paid to KMP during the year:

	Key management personnel		Highest paid key management personnel	
	2021 £m	2020 £m	2021 £m	2020 £m
Salary and other short term benefits	3.1	3.2	0.5	0.4
Post-employment benefits	0.3	0.3	—	—
Termination benefits	0.0	0.2	—	—
Total	3.4	3.7	0.5	0.4

In 2021, there were 24 KMP for all or part of the year (2020: 23). The table above represents the compensation paid in relation to the period for which they were key management personnel.

No payments to former Directors were made during the year (2020: £nil).

No share options were granted or exercised during 2021 (2020: 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 2021 (2020: nil). There were no long-term incentive schemes in operation during the year (2020: nil).

Termination benefits relate to severance payments made to KMP who left during 2021 (2020: £0.2m).

(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) Immediate parent and subsidiary undertakings

In accordance with IAS 24 *Related Party Disclosures*, intra-group related party transactions and outstanding balances are eliminated in the preparation of the consolidated financial statements of AIB UK Group. AIB UK enters into transactions with the subsidiary companies listed in note 23. Funding is provided on terms similar to those that apply to third parties.

The table below provides the balances that AIB UK Group has with its immediate parent and subsidiaries and the transactions included in the income statement:

	2021		2020	
	Immediate parent*	Subsidiaries	Immediate parent	Subsidiaries
	£m	£m	£m	£m
Statement of financial position				
Deposits	—	10	—	13
Income statement				
Interest expense	—	—	1	—

*On 16 February 2021, AIB plc replaced AIB Holdings (N.I.) Limited as the immediate parent company of AIB UK. Balances that AIB UK Group has with AIB plc at 31 December 2021 are shown in (e) below.

(e) Ultimate 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:

	2021		2020	
	AIB plc*	Fellow subsidiaries	AIB plc	Fellow subsidiaries
	£m	£m	£m	£m
Statement of financial position				
Loans and advances	233	13	140	—
Deposits	(184)	(43)	(156)	(39)
Derivative financial instruments (assets)	31	—	60	—
Derivative financial instruments (liabilities)	(111)	—	(140)	—
Secondary non-preferential debt	—	—	(45)	—
Income statement				
Interest income	15	—	14	—
Interest expense	(8)	—	(10)	—
Net fee and commission income	—	3	—	3
Trading and other income/(expense)	(60)	—	(48)	—
Administrative expenses	(30)	—	(30)	—

*On 16 February 2021, AIB plc replaced AIB Holdings (N.I.) Limited as the immediate parent company of AIB UK.

In 2021, there were no transactions between AIB UK Group and the ultimate parent company, AIB Group plc (2020: £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 2021, AIB UK Group recognised £1.8m (2020: £1.3m) fair value amortisation income on these loans.

(g) Transactions with key management personnel

Connected persons

The aggregate of loans to connected persons of Directors in office are as follows (aggregate of 5 persons; 2020: 6):

	2021 £'000	2020 £'000
Loans	4	10
Total	**4**	10

The total interest received on these loans in 2021 was £nil (2020: £nil).

The loans are made on normal commercial terms, and an insignificant expected credit loss allowance is held on these loans at 31 December 2021 and 2020.

45. Events after the reporting period

The following significant events affecting AIB UK Group or AIB UK have occurred since the reporting date which do not require amendment to the financial statements:

Dissolution of subsidiary

On 4 January 2022 Aberco Limited, a subsidiary of AIB UK, was dissolved.

UK bank surcharge tax rate

The Finance Act 2022 received Royal Assent on 24 February 2022 reducing the UK bank surcharge from 8% to 3% from April 2023. This change will not impact the deferred tax asset on unutilised losses. Had this rate been substantively enacted at 31 December 2021 it would have reduced the deferred tax liability on retirement benefits by £8m and the deferred tax asset on cashflow hedge and other timing differences by £3m.

46. Parent company

Reference to the immediate parent undertaking refers to AIB plc, a company registered in the Republic of Ireland, with its registered office at 10 Molesworth Street, Dublin 2. AIB plc is the smallest group for which consolidated accounts are prepared.

AIB Group plc is the ultimate parent company of AIB UK. The ultimate parent group is the largest group, of which AIB UK is a member, for which consolidated accounts are prepared. The financial statements of AIB plc and of the ultimate parent company are available from AIB Group plc, 10 Molesworth Street, Dublin 2. Alternatively, information can be viewed by accessing AIB's website at www.aib.ie/investorrelations.

Glossary of terms

AIB GB	Allied Irish Bank (GB)
AIB plc	Allied Irish Banks, p.l.c, the principal operating company
AIB Group plc	Holding company and ultimate parent of AIB plc and AIB UK
AIB NI	AIB (NI), formerly First Trust Bank
AIB UK	AIB UK', 'The Bank' or 'The Company' will relate to AIB Group (UK) p.l.c.
AIB UK Group	AIB UK Group' will relate to AIB Group (UK) p.l.c. and its subsidiaries
APM	Alternative Performance Measure
APP	Assured Payment Policy
ARR	Alternative Reference Rate
Arrears	Arrears relates to interest or principal on a loan which was due for payment, but where payment has not been received.
b	Billions
BBLS	Bounce Back Loan Scheme
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.
CBILS	Coronavirus Business Interruption Loan Scheme
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
CLBILS	Coronavirus Large Business Interruption Scheme
CMI	Continuous Mortality Investigation
Code	Code of Conduct
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
CRAO	Credit risk at origination
CRD IV	Capital Requirements Directive IV
Credit impaired	Under IFRS 9, these are Stage 3 financial assets where there is objective evidence of impairment and, therefore, considered to be in default. A lifetime ECL is recognised for such assets.
Credit 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 the 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.
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
EE	Expected exposure

EIR	Effective interest rate
EPC	Energy Performance Rating
EPE	Expected positive exposure
ERU	Economic Research Unit
ESG	Environmental, social and governance
ESOS	Energy Savings Opportunity Scheme
EU	European Union
ExCo	Executive Committee
FCA	Financial Conduct Authority
Forbearance	Forbearance is the term used when repayment terms of a loan contract have been renegotiated to make payment terms more manageable for borrowers. Standard forbearance techniques have the common characteristics of rescheduling principal or interest repayments, rather than reducing them. Standard forbearance techniques employed by AIB UK Group include interest only, a reduction in the payment amount, a temporary deferral of payment (a moratorium), extending the term of the mortgage and capitalising arrears amounts and related interest.
Framework	AIB Group Subsidiary Governance Framework
FRC	Financial Reporting Council
FSG	Financial Solutions Group
FSCS	Financial Services Compensation Scheme
FTE	Full time equivalent
FVA	Funding Valuation Adjustment
FVOCI	Fair value through other comprehensive Income
FVTPL	Fair value through profit or loss
FX	Foreign exchange
GB	Great Britain
GDP	Gross Domestic Product
GHG	Greenhouse Gas
Green mortgage	Green mortgages are offered to new and existing mortgage borrowers buying a home (private dwelling) which has an Energy Performance Rating ('EPC') of A or B.
GSP	Group Sustainability Programme
IAS	International Accounting Standard Regulation
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
IMF	International Monetary Fund
IRBA	Internal Ratings Based Approach ('IRBA') allows banks, subject to regulatory approval, to use their own estimates of certain risk components to derive regulatory capital requirements for credit risk across different asset classes. The relevant risk components are: probability of default ('PD'); loss given default ('LGD'); and exposure at default ('EAD').
IRHP	Interest Rate Hedging Products
IRRBB	Interest Rate Risk in the Banking Book
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').
LIBOR	London Inter-Bank Offered Rate
LLP	Limited Liability Partnership
Loan to deposit ratio	This is the ratio of loans and advances to customers expressed as a percentage of customer accounts, as presented in the statement of financial position.
LTPD	Lifetime probability of default
m	Millions

MRA	Material Risk Assessment
MREL	Minimum Requirement for Eligible Liabilities
Net loans	Total loans minus the drawn credit provisions
NFGS	Network for Greening the Financial System
NI	Northern Ireland
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.
NPS	Net Promoter Score
OBR	Office for Budget Responsibility
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.
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
RAROC	Risk Adjusted Return on Capital
RAS	Risk Appetite Statement
RCA	Risk and Control Assessment
Repo	Repurchase agreement ('Repo') is a short-term funding agreement that allows a borrower to create a collateralised loan by selling a financial asset to a lender. As part of the agreement, the borrower commits to repurchase the security at a date in the future repaying the proceeds of the loan. For the counterparty to the transaction, it is termed a reverse repurchase agreement or a reverse repo.
Reverse repo	A purchase of securities with an agreement to resell them at a higher price at a specific future date.
RFR	Risk-free rate
Risk	Risk and Compliance
RWA	Risk weighted assets ('RWA') are a measure of assets (including off-balance sheet items converted into asset equivalents e.g. credit lines) which are weighted in accordance with prescribed rules and formulas as defined in the Basel Accord to reflect the risks inherent in those assets.
SCA	Strong Customer Authentication
SECR	Streamlined Energy and Carbon Reporting
Section 172(1)	Section 172(1) of the Companies Act 2006
Securitisation	The process of aggregation and repacking of non-tradable financial instruments such as loans and advances, or company cash flow into securities that can be issued and traded in the capital markets.
SICR	Significant increase in credit risk
SID	Senior Independent Director
SLP	AIB PFP Scottish Limited Partnership
SME	Small and medium-sized enterprises (SMEs) are businesses whose personnel numbers and financial results fall below certain limits.
SMR	Senior Managers Regime
SONIA	Sterling Overnight Index Average
SPPI	Solely payments of principal and interest

Stage 1	Includes newly originated loans and loans that have not had a significant increase in credit risk since initial recognition.
Stage 2	Includes loans that have had a significant increase in credit risk since initial recognition but do not have objective evidence of being credit impaired.
Stage 3	Includes loans that are defaulted or are otherwise considered to be credit impaired.
TCFD	Taskforce on Climate-related Financial Disclosures
The Company	AIB Group (UK) p.l.c.
The Parent	Allied Irish Banks, p.l.c.
The Parent Group	Allied Irish Banks, p.l.c. and its subsidiary undertakings, which includes AIB Group (UK) p.l.c.
Tier 1 capital	A measure of a bank's financial strength defined by the Basel Accord. It captures core Tier 1 capital plus other Tier 1 securities in issue, but is subject to deductions in relation to the excess of expected loss on the IRBA portfolios over the IFRS provision on the IRBA portfolios, securitisation positions and material holdings in financial companies.
TOM	Target Operating Model
Tracker mortgage	A tracker mortgage has a variable interest rate. The rate tracks the Bank of England (BOE) rate, at an agreed margin above the BOE rate and will increase or decrease within five days of a BOE rate movement.
UK ALCo	UK Asset & Liability Committee
UKCC	UK Credit Committee
UKLM	AIB UK Loan Management Limited
UKLT	UK Leadership Team
UKRC	AIB UK Group Risk Committee
UK Scheme	AIB UK Group 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