

AIB Group (UK) p.l.c.

Annual Financial Report

for the year ended 31 December 2020

Company number: NI018800



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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.

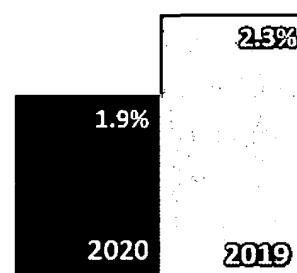
How we've done

2020 Performance results

Net interest margin **1.9%**

Low interest rate environment

Reduced customer loan yields in line with market rates offset by decrease in interest expense.

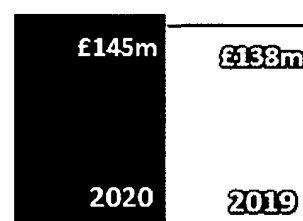


Total adjusted costs⁽¹⁾ **£145m**

Statutory costs £189m (incl. restructure costs)

Continued focus on cost management

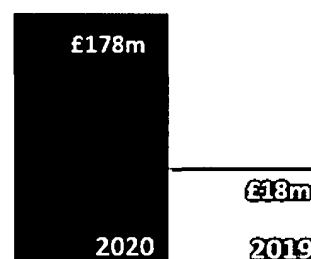
Cost growth impacted by higher retirement benefit costs due to the decision to reduce the risk of the defined benefit scheme in 2019, changes in the discount rate and past service costs.



Net credit impairment charge **£178m**

Forward looking and comprehensive provisioning approach

Impairment charge of £178m due to the deterioration in the economic outlook, credit downgrades, particularly in sectors most impacted by COVID-19 restrictions, as well as post model adjustments ('PMAs') for expected COVID-19 impacts

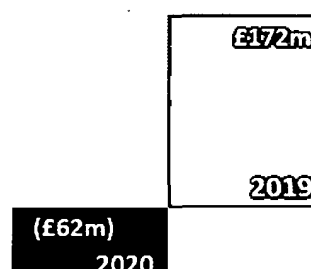


Adjusted loss before tax⁽¹⁾ **(£62m)**

Adjusted operating profit £116m⁽¹⁾

Statutory operating profit £73m

Operating profit of £116m down 38% due to income impact of lower interest rates and lower other income as result of the COVID-19 pandemic. Loss before tax £62m¹ following an impairment charge of £178m. Statutory loss before tax £105m.

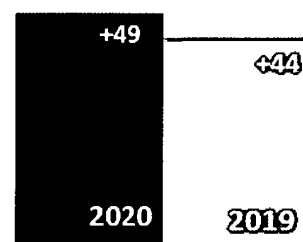


Net promoter score (AIB NI Retail)

+49

Continually improved throughout 2020, with +5 increase from 2019

Customers have fed back that they feel valued, staff are helpful and friendly and that the loans' application process is straightforward and quick.

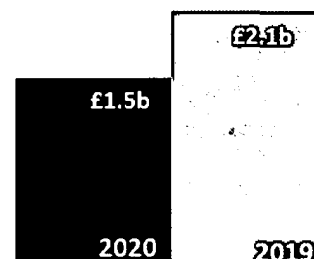


New lending

£1.5b

Playing our role in aiding the economic recovery by continuing lending

£0.3b lending as part of government backed loan schemes. Sustainability remaining a key focus with strides made within the Energy sector alongside the successful launch of a Green Mortgage Product.

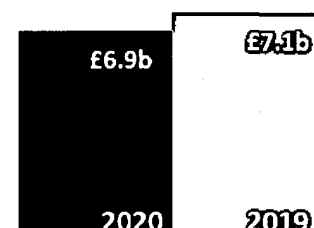


Net loans

£6.9b

3% decrease in net loans

Lower net loans largely as result of increase in expected credit loss. Gross loans down 1%.

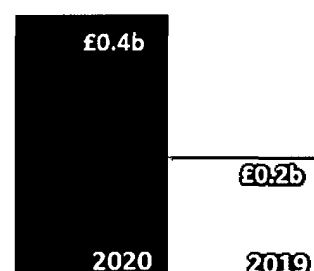


Non-performing loans

£0.4b

6% of gross loans

Increase in non-performing loans due to economic environment. A dedicated specialist team has been established to manage cases deemed particularly vulnerable to the COVID-19 crisis.

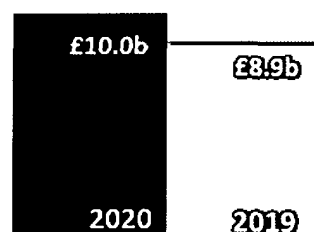


Customer accounts

£10.0b

12% increase following restrictions and lockdowns

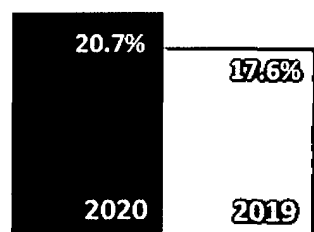
Customer account balances increasing as result of less discretionary spending in 2020.



CET1 ratio⁽²⁾ 20.7%

Strong capital base

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



⁽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 Alternative Performance Measures ('APMs') and a description of AIB UK Group's APMs and their calculation is included on page 25 of this report. A reconciliation to the statutory view of performance is included in the Financial review on page 15.

⁽²⁾ The CET1 ratio for 2020 includes add-backs for COVID-19 reliefs, which are not included in the 2019 calculation. When these reliefs are excluded, the CET1 ratio at 31 December 2020 reduces from 20.7% to 19.7%.

At a glance

How we back our customers

Our business structure in 2020

We back our customers as a UK specialist bank servicing retail, small and medium-sized enterprises ('SME') and corporate customers in Great Britain and Northern Ireland.

In Great Britain, we mainly concentrate on corporate & commercial banking. In Northern Ireland, we offer business banking, personal banking and mortgages.

2020 brought significant challenges for our customers as a result of the COVID-19 pandemic. We helped them respond to these challenges through a range of supports such as payment breaks and government backed loans.

285k
CUSTOMERS

285k retail, business and corporate customers across the United Kingdom

28
LOCATIONS

13 business centres in Great Britain.
15 branches in Northern Ireland, including six business centres co-located in branches and one centre for small and micro business

129k
DIGITAL CUSTOMERS

129k customers actively engaging across our digital channels

ALLIED IRISH BANK (GB)

AIB GB is a commercial and corporate bank with locations in key cities across Great Britain.

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, invoice discounting and day-to-day transactional banking

AIB (NI)

Our business in Northern Ireland operates as **AIB NI** following the rebrand from First Trust Bank in November 2019.

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 2020

Our people

968  **55%**  **45%**
Employees (FTE) Female Male
Direct & Indirect

Management

271  **40%**  **60%**
Employees (FTE) Female Male
Direct & Indirect

2020 outcomes

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 & 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 & 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	Measures the credit quality of our loan stock
TALENT & 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 staff 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 staff volunteering for local charities or community organisations

New strategic cycle

2021 marks the beginning of a new strategic cycle for AIB UK.

During 2020, we engaged in a process that we believe will set the business up for success over the coming years. This strategy development process was carried out as part of an overall AIB UK Group strategic review and examined macroeconomic developments, industry trends and our own and our Parent's business priorities.

The developed strategy aims to address a number of key challenges and trends:

- Impact of Brexit and COVID-19 on the business environment and ways of working;
- Lower for longer interest rates;
- Increasing competition from existing and new players;
- Changing customer behaviour in personal, SME and corporate markets; and
- Meeting future profitability and Return on Tangible Equity ('ROTE') objectives, both at an AIB UK Group and Parent Group level.

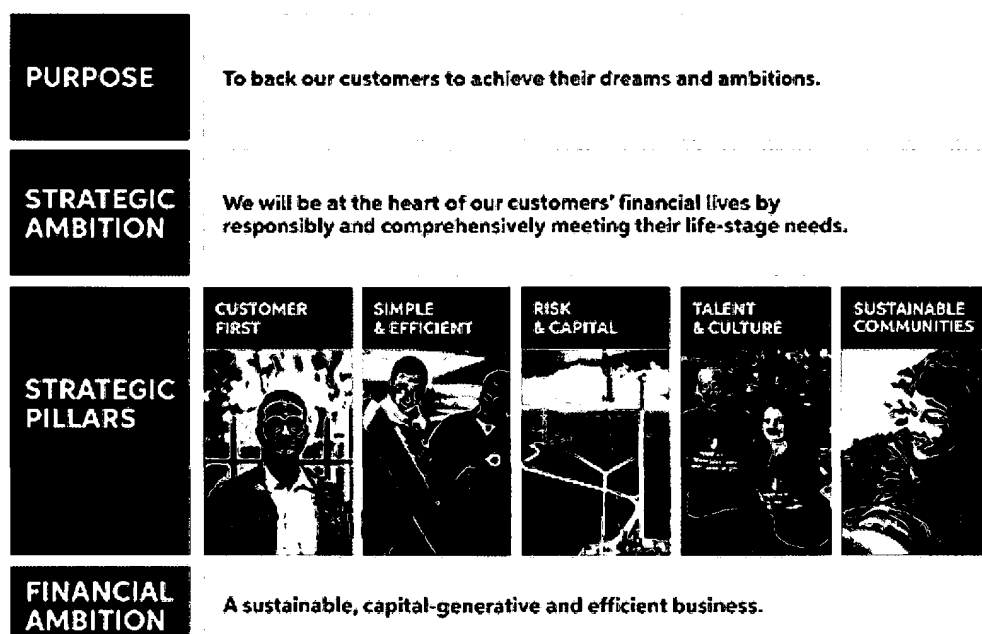
Strategy 2021-2023: purpose-led

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 shareholders, our stakeholders and our people.

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.



Key strategic initiatives

Over the next three years, AIB UK will become a corporate focused bank across the GB market and 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 building the AIB UK bank of the future, we will focus on six key strategic initiatives:

EXIT GB SME MARKET	<p>We will exit the SME market in Great Britain.</p> <p>We will make sure to treat our customers fairly through this process.</p> <p>We will reduce our business centre footprint.</p>
CORPORATE GROWTH	<p>We will grow in key target sectors that we believe have positive and sustainable underlying drivers:</p> <ul style="list-style-type: none"> – Renewables & Sustainable Industries – Healthcare – Capital Projects & Infrastructure – Property/ Real Estate Finance – Manufacturing, Warehousing & Logistics
ASSET FINANCE	<p>We will enhance the capability, effectiveness and competitiveness of our Asset Finance business.</p>
RETAIL AND NORTHERN IRELAND	<p>We will improve the effectiveness and efficiency in our Northern Irish business.</p> <p>We will seek to leverage our customer offerings in Northern Ireland to enter niche segments of the market in Great Britain, with a focus on mortgages.</p>
TARGET OPERATING MODEL	<p>We will implement a new target operating model to ensure our business is centred on delivering for our customers in a streamlined and cost-efficient manner.</p>
SUSTAINABILITY	<p>We will build a business that is sustainable in the long term.</p> <p>We will drive the sustainability agenda, helping to build sustainable communities.</p>



Chairman's statement

"AIB UK has performed exceptionally well this year to meet the needs of our customers which is a reflection of the talent and commitment of our people"

Peter Spratt

Introduction

We began 2020 with the strategic goal of focusing on our fundamental values, which have evolved significantly over recent years, to make it easier for our customers to do business with us. At that time, there was already economic and political uncertainty, accentuated by the protracted discussions on Brexit. However, the unfolding of the COVID-19 pandemic throughout the year has had an unprecedented impact on societies and economies all over the world. The situation has been extraordinarily fast moving and the Bank has faced a significant real world test of our operational resilience, adaptability and culture, which I am proud to say we have responded to with great fortitude.

That our people have been able to adapt to such a rapidly evolving environment, to enable the Bank to continue to meet our customers' needs, is a testament to the work that has been implemented in the preceding years in establishing our strategic pillars of Customer First, Simple & Efficient, Risk & Capital, Talent & Culture and the new pillar, Sustainable Communities. Our systems and processes have proven to be robust, having had the majority of our people move to remote working, and we have also been able to develop further our existing and new digitised processes in remarkably short timeframes to meet the demands of the new environment. The successful execution of these requirements confirmed our operational resilience and enabled the Bank to continue, successfully, serving our customers throughout a year like no other.

While facing the challenges presented by the COVID-19 pandemic, the political uncertainty around Brexit continued throughout the year with negotiations on the terms of the UK's departure from the European Union ('EU') only being concluded late in December 2020. We have been preparing for the various scenarios for the UK's exit from the EU since the Brexit vote in 2016 and now, with the transition period having come to an end on 31 December 2020, we can focus on helping our customers through the impacts their businesses will face under the deal agreed for trade outside of the EU.

Financial performance and business strategy

This has been a challenging year for all, including in the banking industry, through reduced economic activity due to COVID-19 restrictions, lower demand for new lending and the Bank of England cutting its interest rates further to 0.1%. This has impacted the level of income generated by the Bank, and necessitated increases in expected credit losses in 2020 to reflect the uncertainty of the economy at this time.

The end of 2020 also marked the completion of our current strategic cycle and we announced our new business strategy of focusing on growing our mortgage business in Northern Ireland and on Corporate Banking in Great Britain. We are excited to move forward to the next stage of our journey of becoming the long term sustainable bank we believe will meet our customers' needs.

The expected credit losses needed in 2020 and the restructuring costs arising from the new business strategy have materially affected the Bank's performance for the year such that, after allowing for them, AIB UK Group recorded a statutory loss before taxation of £105m. When excluding non-recurring items, AIB UK Group's adjusted loss before taxation⁽¹⁾ was £62m. Despite this we maintain a strong capital position from strengthening it in the years since the financial crisis. We will now look to embed our new strategy over the coming years to continue to grow the Bank from the solid foundations laid down.

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Customers and colleagues

Our customers remain at the heart of our organisation and, perhaps as never before, have had need for AIB UK Group to be there for them in 2020.

I believe AIB UK has performed exceptionally this year to meet the needs of our customers which is a reflection on the talent and commitment of our people, who have truly shown how they live our values as a business. I pay particular tribute to our frontline colleagues, who have been attending branches and business centres right through the pandemic to maintain the provision of essential banking services for our customers. A key priority for us during the COVID-19 pandemic has been to look after the welfare of our customers and our people, and to support them as effectively as we can through the crisis.

For customers, this has meant looking after their health and safety physically, while in our branches, as well as providing financial support. Through the branch network we have implemented social distancing and stringent hygiene measures as well as offering priority hours for our more vulnerable customers. AIB UK Group was approved as an accredited lender of government backed loans to support businesses through the economic impacts of the crisis and has been able to lend under the Coronavirus Large Business Interruption Loan Scheme ('CLBILS'), the Coronavirus Business Interruption Loan Scheme ('CBILS') and the Bounce Back Loan Scheme ('BBLs'). In addition, we have been providing customers with our own financial solutions to support them, including payment holidays, interest only options and relaxation of covenants.

We will continue to back our customers throughout the pandemic and are fully committed to supporting our business customers through the complexities of Brexit in 2021.

For our people, our focus in 2020 has also been on maintaining their health and safety, whether they are colleagues working frontline in the branches or transitioned to working remotely. The impact of COVID-19 on all our lives means everyone is facing their own personal challenges, be it looking after vulnerable family and friends or managing childcare commitments, and we strive to support our people to enable them to continue to back our customers to achieve their dreams and ambitions.

At a time like this, it has never been more important for the Bank to look to helping the community around it. The social restrictions required to combat the spread of COVID-19 mean charities have been forced to cancel many of their fundraising events, which has, and will continue to have, a significant impact on their ability to continue with the good work they do at a national and a local level. With this in mind, every branch and business centre of the Bank was given £1,000 to donate to a charity of their choice, thereby targeting some of the funds of the AIB Together programme to local community efforts. This is in addition to the fundraising activities of our colleagues, which we are match funding through AIB Together. Following the success of our relationship with our Charity Partner for 2020, Age UK and Age NI, our people were given the opportunity to choose our Charity Partner for 2021, which will be Cancer Research UK.

Board of Directors

There were a number of changes to the Board during the year:

As noted in my 2019 Chairman's Statement, on receiving regulatory approval in early 2020 Robert Mulhall transitioned seamlessly into the role of Managing Director and Brendan O'Connor stepped down from the role at that time.

Rachel Lawrence stepped down as both a Director and from her position as Chief Financial Officer ('CFO') in 2020. Rachel joined AIB UK Group in 2016 and made a significant contribution to the Bank's achievements during the time she was with us. We were sorry to see her leave and wish her every success in her new career.

Rachel's role as CFO was succeeded by Anna Savage. Anna has extensive experience working in banking and finance, and throughout her career within the Parent Group she has held key roles in strategic and financial planning. Most recently, she was the Head of Finance for AIB Retail Banking Ireland.

We would like to thank Sir Bruce Robinson and Jim O'Keeffe, who also stepped down as Directors, for their service to the Board in bringing AIB UK Group to the resilient position it has demonstrated itself to be in, in the face of such a difficult year.

Finally, we welcomed Paul Horner, Cathy Bryce and Tracy Dunley-Owen to the Board in early 2020. Both Paul and Tracy have many years' experience from previous senior executive finance roles outside of the Parent Group, while Cathy is a member of the Executive Committee ('ExCo') at the Parent where she is Head of Corporate and Institutional Banking. They bring with them a wealth of banking experience and add greater diversity to the Board. We look forward to working with them to shape the future of the Bank.

Outlook

The rollout of the several vaccines for COVID-19 and the relatively more certain trading position with the EU give us reasons for optimism for 2021. Nevertheless, we remain mindful of the challenges they continue to give all of us and shall continue to provide the support our customers and colleagues need to enable them to meet these challenges. While 2020 has proven to be an unprecedented year, both socially and economically, we now look forward to implementing our new strategy over the coming years and to continue the Bank's transformation into the long term sustainable bank our customers require.



Peter Spratt
Chairman

10 March 2021



Managing Director's review

"In 2020, AIB UK displayed remarkable resilience in the face of adversity."

Robert Mulhall

Introduction

2020 presented 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 situation, 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.

Since taking up my position as Managing Director in March 2020, I am appreciative of how I have been welcomed into the organisation and continue to be impressed by my colleagues' ability to deliver on our purpose, to back our customers to achieve their dreams and ambitions. I want to take this opportunity to thank personally the UK Board, my fellow UK ExCo members and everybody in AIB UK who have acted as one team this year to deliver for our customers.

Our financial performance in 2020 reflects the economic realities of an extremely difficult operating environment with increased expected credit loss coverage, reduced new lending and inflated business costs impacting profitability. However, the Bank's capital and liquidity positions remain very strong and are a testament to the prudent management of the business over recent years.

Economic factors

The UK economy experienced an extraordinary decline in output in 2020 with Gross Domestic Product ('GDP') falling by 10% following the shutdown of multiple sectors of the economy in response to COVID-19. The unemployment rate rose above 5% but was less significantly impacted with the government backed furlough schemes preventing large scale job losses. However, as these schemes come to an end, the true impact on the labour force may only become apparent in 2021.

The Bank of England reduced interest rates to a historic low of 0.1% and this continues to have a material impact on absolute levels of profitability in the industry. In response to this turbulent economic backdrop we took the decision to adjust our appetite for new to bank lending in certain sectors whilst continuing to support our existing customer base.

From a forward looking perspective, vaccine development and distribution provides hope for an end to the pandemic and a brighter economic outlook next year. We believe that we are in an excellent position to capitalise on any opportunities that this may present.

Customer first

2020 has undoubtedly been a very difficult 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 delivered significant customer supports (payment holidays, interest only options, relaxation of covenants etc.) in response to the pandemic. We also approved £284m extra funding via the UK Government backed CLBILS, CBILS and BBLS. These were in addition to other initiatives including introducing priority banking hours in our branches for our older and vulnerable customers.

"2020 has undoubtedly been a very difficult year for many of our customers and as a bank it challenged us to truly live our values"

Following the scale of these supports it was particularly gratifying that our AIB NI Retail Net Promoter Score ('NPS') reached a record high of +55 in the fourth quarter of 2020. This overall score was a result of improvements across all our transactional journeys in the quarter and in particular was bolstered by very strong personal loan (+87) and over the counter (+59) scores. The overall 2020 NPS of +49 reflected a significant increase on the 2019 score of +44. These scores indicate the likelihood that our customers would recommend our products and services, serving as one of our key measures of success.

This success helps validate our continued commitment to Northern Ireland and our rebrand in the region from First Trust Bank to AIB (NI) cements this point. The success of the rebrand, which won the Capital Finance International 2019 Best Bank Rebrand (Europe) award has enabled us to deliver consistent brand messaging across the island of Ireland with an enhanced market presence in Northern Ireland.

In Great Britain, our healthcare team were nominated for a number of industry awards reflecting the significant expertise we have developed in this sector in recent years. These along with the items mentioned above, are all very pleasing outcomes but we are not complacent and remain committed to improving our service and customer experience over the coming years.

Simple & efficient

The challenges presented by COVID-19 have forced us to become a more dynamic and nimble organisation. As the full impact of the pandemic began to emerge early in the year we successfully delivered customer and operational solutions at pace via rapid decision making and clarity of focus. Delivering innovative solutions under remote working conditions was a considerable challenge but one that all our people embraced. We have subsequently committed to learning the lessons from this period and have adopted many of the changes implemented as part of our business as usual processes.

It was no surprise to me that our people were able to adapt quickly and deliver customer centric change. Over the last number of years our ways of working programme has embedded lean methodology across all areas of our business. As a reward for their efforts and the success of this programme, the lean transformation team were shortlisted for the British Quality Foundation UK Excellence Award for Continuous Improvement. This is a fantastic achievement particularly as these awards are widely regarded as the UK's most prestigious business excellence awards.

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. The Bank is in a strong position to withstand such shocks, including their impact on ECL provisions, with a CET1 ratio of 20.7%. Furthermore, our stress test modelling indicates that even in situations of significant economic turbulence, we will continue to exceed regulatory capital requirements.

Talent & culture

In 2020, we have all learned to adapt to new circumstances with balancing home and work life under one roof becoming a part of everyday life. In AIB UK up to 80% of our people were working from home during lockdown periods which brought some obvious challenges from an operational perspective. Whilst dealing with those, we have not neglected the equally important impacts on culture, wellbeing and morale.

Our values
Be one team
Own the outcome
Drive progress
Show respect
Eliminate complexity

The resilience of our people during these trying times has been personally inspiring, with a laser focus on customer needs maintained at all times. In particular, and like our Chairman, I would like to pay tribute to our frontline staff who continued to serve our customers from branches even under national lockdown conditions in their roles as key workers.

We also re-launched our values and behaviours (be one team, own the outcome, drive progress, show respect and eliminate complexity) in line with a process carried out at Parent Group level. In AIB UK we try to live by these values on a daily basis and we can all take pride in working for a purpose-led business. The importance of these values was never more important than during the COVID-19 crisis and they acted as a touchstone when key decisions needed to be made. They should serve us well over the coming years.

Sustainability

In AIB UK Group we are committed to backing sustainable communities and 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 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:

- All AIB UK premises have switched to 100% certified renewable electricity and gas sources;
- AIB UK launched a Green Mortgage proposition in Northern Ireland that offers competitive fixed rates to customers who purchase energy efficient homes with a tree planted for every successful application;
- Paperless delivery of fixed rate personal loans with significant paper reduction across other processes;
- 12% of our loan book is in the Energy sector with a significant focus on renewable energy generation and environmentally friendly waste disposal; and
- AIB UK contributed 23% of the assets in our Parent's Green Bond Scheme which will allow AIB plc to support sustainability projects including energy-efficient building, renewable energy, carbon reduction and other climate-related initiatives.

Regulatory and other evolving issues

We continue to navigate a complex and demanding regulatory landscape. Throughout the year we responded to our regulators' expectations in issues such as interest rate reductions, progressing the transition from London Inter-Bank Offered Rate ('LIBOR') to Sterling Overnight Index Average ('SONIA'), maintaining operational resilience, enabling strong customer authentication for payments and managing the financial risks of climate change amongst others.

In 2020, we saw a number of regulatory interventions to enable banks to assist customers through the COVID-19 pandemic. 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 and this continues into the early part of 2021. Such interventions, implemented at speed, heighten the risk of subsequent allegations of mis-selling or process failure leading to customer detriment.

The EU/UK Brexit deal was much welcomed with the avoidance of a no-deal in the interests of both sides. However, this new reality will still provide challenges for the Bank and our customers. In particular, agreement still needs to be reached on the UK's access to EU financial markets. We remain confident that we are in a strong position to deal with whatever scenario plays out over the coming months and years.

Strategy 2021-23

Despite our primary focus in 2020 being on responding to the immediate impacts of the pandemic, we also embarked on a strategy development process that we believe will deliver a more simplified, streamlined and strengthened business over the next three years. This will require an adjustment to our operating model but our five strategic pillars (Customer First, Simple & Efficient, Risk & Capital, Talent & Culture and Sustainable Communities) remain unchanged.

We will continue to evolve our sectoral approach to corporate business in Great Britain, with key areas of focus including renewables & sustainable industries, healthcare, capital projects & infrastructure and manufacturing, warehousing & logistics. These are sectors we believe have strong fundamentals and should be largely immune to Brexit and COVID-19 impacts. In parallel, we will continue to develop our Asset Finance business as a core priority.

We recognise that we operate in a very a competitive SME banking market in Great Britain and that it has become increasingly challenging to offer a differentiated customer proposition without significant capital investment. Following a thorough examination of our options to compete and the potential returns available, we decided to withdraw from this market. In 2021, we will be exploring the best approach to achieve this exit by the end of 2023 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. 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 will require an adjustment to our operating model. Our workforce will also change 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.

Non-financial information statement

The following table summarises the areas of disclosure of non-financial information in the annual financial report as required by sections of the Companies Act 2006. For certain items reference is made to our websites where we publish more information. The website address for AIB GB is <https://aibgb.co.uk> and for AIB NI is <https://aibni.co.uk>.

Information	Location of disclosure
Description of our business model	In 'At a glance' section on page 4
Principal risks relating to:	
Environmental matters	Within Strategic risk on page 32 and Credit risk on page 33
Social and people matters	Within Conduct risk on page 35 and People & culture risk on page 36
Respect for human rights	Within People & culture risk on page 36
Bribery and corruption	Within Operational risk on page 34 and Regulatory & compliance risk on page 35
Non-financial Key Performance Indicators ('KPI')	Key non-financial KPIs are detailed below: Net promoter score is reported on page 2; customer complaints page 35 under Conduct risk Gender balance of our people and management page 4 Gender balance of the Board is reported on page 42 Other non-financial indicators tracked by AIB UK are referred to on page 5 including customer journey, operational productivity/re-work, renewables drawdowns and AIB Together.
Environmental matters	Sustainability is referred to on page 5, 7, 13 and 27 Streamlined energy and carbon reporting is on page 48
Social and people matters	Social contribution through our people being entitled to two volunteering days per annum; continued fundraising for nominated charities with Cancer Research UK chosen as new charity partner for 2021 (page 27) Colleague engagement is discussed on page 49 Talent & culture are described on page 5 including reference to diversity and inclusion Reference to Board responsibility for diversity and succession planning under Nomination Committee on page 42 The Bank's Gender diversity policy statement and the annual Gender Pay Gap report are published on the AIB GB website
Respect for human rights	The Bank's Modern Slavery statement 2019 is published on both the AIB GB and AIB NI websites
Bribery and corruption	Anti-money laundering is referred to on pages 35 and 41

Conclusion

2020 has undoubtedly been a difficult year from both a business and a personal perspective. However, I believe we at AIB UK can be proud of our achievements this year and I believe that 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 2021 with confidence, ready to meet the challenges to come.



Robert Mulhall
Managing Director

10 March 2021



Financial review

"Strong capital position notwithstanding the pandemic, AIB UK is well placed for delivery of real value in the years ahead."

Anna Savage

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 25.

These management performance measures are presented as they reflect the Board's view of AIB UK Group's adjusted performance without distortions caused by non-recurring items that are not reflective of AIB UK Group's ongoing business activities. Management performance presented should be considered in conjunction with IFRS information as set out in the consolidated financial statements from page 61 onwards.

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

	2020 £m	2019 £m
Summary income statement		
Net interest income	215	249
Other income	47	79
Operating income	262	328
Total adjusted costs	(145)	(138)
Regulatory fees	(1)	—
Adjusted operating profit before expected credit losses	116	190
Net credit impairment charge	(178)	(18)
Adjusted (loss)/ profit before tax	(62)	172
Voluntary severance	(2)	(4)
Restructuring provision	(25)	—
Impairment of intangible assets	(5)	—
Impairment of property, plant and equipment	(6)	—
Property strategy costs	—	(1)
Customer redress	(5)	(3)
Total adjustments	(43)	(8)
Statutory (loss)/profit before tax	(105)	164
Tax	21	(58)
Statutory (loss)/ profit after tax	(84)	106

	31 Dec 2020 £m	31 Dec 2019 £m
Summary balance sheet		
Gross loans to customers	7,102	7,194
Expected credit losses	(245)	(89)
Net loans	6,857	7,105
Other assets	5,653	4,547
Total assets	12,510	11,652
Customer accounts	9,979	8,893
Other liabilities	857	996
Shareholders' equity	1,674	1,763
Total liabilities and shareholders' equity	12,510	11,652

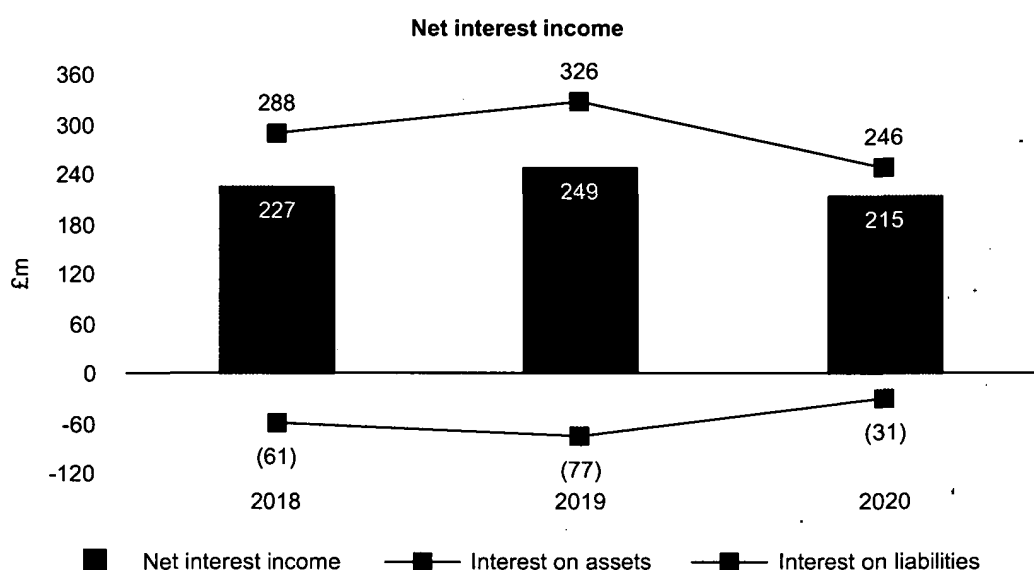
Summary income statement review

Operating income and net interest margin ('NIM')

Operating income	NIM	Other income
£262m	1.9%	£47m
£328m	2.3%	£79m

Net interest income

	2020 £m	2019 £m	Change %
Net interest income	215	249	(14)
Average interest earning assets	11,305	10,908	4
	%	%	%
NIM	1.9	2.3	(17)
Banking NIM	2.9	3.3	(12)



Net interest income decreased by £34m (14%) compared to 2019 due to a reduction in income on assets from lower asset yields on the back of decreases in the Bank of England base rate and LIBOR over 2020. 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 0.4% from 2.3% in 2019 to 1.9% in 2020. This is due to lower asset yields following the reduction in the Bank of England base rate from 0.75% to 0.10% in March 2020 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 2020			Year ended 31 December 2019		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Assets	£m	£m	%	£m	£m	%
Loans and receivables from customers	6,976	224	3.2	7,012	257	3.7
Balances with central banks & other interest earning assets	4,329	22	0.5	3,896	69	1.8
Average interest earning assets	11,305	246	2.2	10,908	326	3.0
Non interest earning assets	732			956		
Total assets	12,037	246		11,864	326	
Liabilities and equity						
Customer accounts	7,430	19	0.3	7,145	27	0.4
Other interest bearing liabilities	719	12	1.7	947	50	5.3
Average interest bearing liabilities	8,149	31	0.4	8,092	77	1.0
Non-interest bearing liabilities	2,134			1,875		
Equity	1,754			1,897		
Total liabilities and equity	12,037	31		11,864	77	
Net interest income	11,305	215	1.9	10,908	249	2.3
Banking net interest income	6,976	205	2.9	7,012	230	3.3

Average interest earning assets of £11.3b in 2020 increased by £0.4b compared to 2019, primarily due to funds placed with banks. This was driven by excess liquidity mainly due to higher interest bearing and non-interest bearing customer accounts balances.

Other income

	2020	2019
	£m	£m
Retail banking customer fees	15	21
Credit related fees	11	15
Foreign exchange fees	8	9
Service charge	3	10
Credit card commission	3	4
Other fees and commission	5	7
Fee commission expense	(4)	(5)
Interest rate contracts	(1)	4
Investment securities - equity	2	(1)
Other operating income	5	15
Other income	47	79

Other income decreased by £32m (41%) to £47m, compared to £79m in 2019. This is partially due to lower transaction volumes due to a reduction in economic activity over 2020. The decrease in service charge relates to a reduction of the income received from AIB UK Loan Management Limited ('UKLM'), a fellow subsidiary, whereby AIB UK is reimbursed for personnel and administration costs incurred servicing the company. The decrease in other operating income is due to not receiving a dividend on the investment securities in 2020.

Total adjusted costs and cost income ratio

Total adjusted costs	Cost income ratio
£145m	55%
£138m	42%

	2020 £m	2019 £m	change %
Total adjusted costs			
Personnel costs	80	73	10
General & administrative costs	50	52	(4)
Depreciation, impairment and amortisation	15	13	15
Total adjusted costs	145	138	5
Employee numbers at period end ('FTE')	968	981	(1)
Average employee numbers	975	1,000	(3)

Total adjusted costs

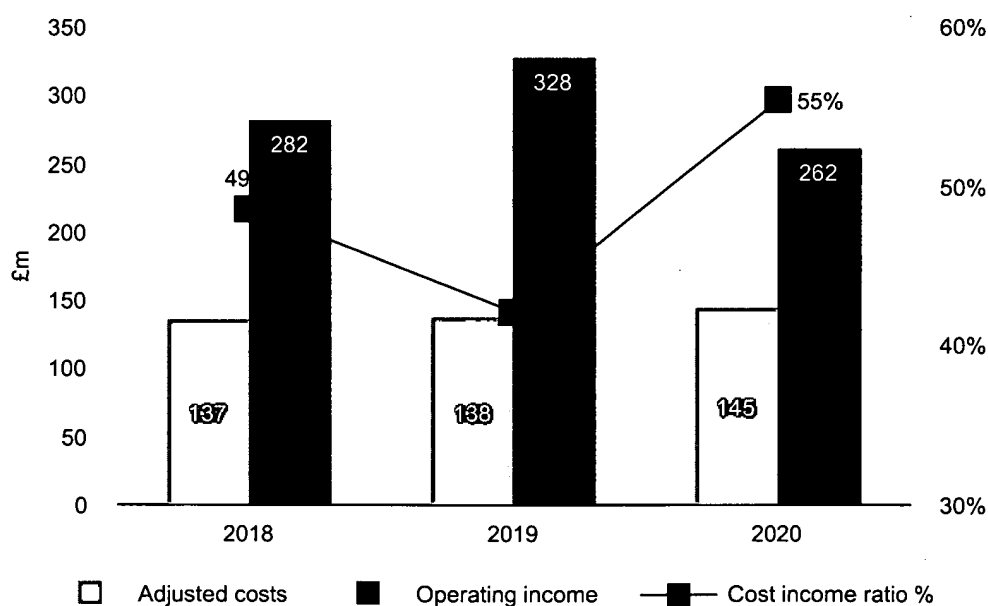
Total adjusted costs have increased by £7m (5%) to £145m compared to 2019.

Personnel costs increased by £7m compared to 2019 as result of higher retirement benefit costs partially offset by a decrease in average employee numbers. Retirement benefit costs increased due to the change to the pension funding strategy in 2019 to reduce the risk associated with the defined benefit scheme by purchasing insurance policies, changes in the discount rate and past service costs (see note 27).

General and administrative costs have decreased by £2m compared to 2019 due to the savings achieved as a result of lower travel, subsistence and entertainment costs along with lower professional fees, offset by other operational costs associated with the COVID-19 pandemic.

Depreciation, impairment and amortisation costs increased by £2m due to the transitioning of assets into operational use from the investment programmes from prior years.

Cost income ratio



Adjusted costs of £145m (up 5%) and income of £262m (down 20%) resulted in a cost income ratio of 55% in 2020, compared to 42% in 2019.

Regulatory fees

	2020	2019
	£m	£m
Regulatory fees	(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

	2020	2019
	£m	£m
Net credit impairment charge	(178)	(18)

The net credit impairment charge of £178m in 2020, increased from £18m in 2019, primarily due to the deterioration in the economic outlook, credit downgrades, particularly in sectors most impacted by COVID-19 restrictions, as well as PMAs for expected COVID-19 impacts.

Total adjustments

	2020	2019
	£m	£m
Voluntary severance	(2)	(4)
Restructuring provision	(25)	—
Impairment of intangible assets	(5)	—
Impairment of property, plant and equipment	(6)	—
Property strategy costs	—	(1)
Customer redress	(5)	(3)
Total adjustments	(43)	(8)

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

- 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: provision to cover voluntary severance, 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 an annual 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.
- Property strategy costs: investment in Northern Ireland property.
- 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 the preceding financial period. See note 32 for more detail.

Tax

	2020	2019
	£m	£m
Income tax credit / (charge)	21	(58)

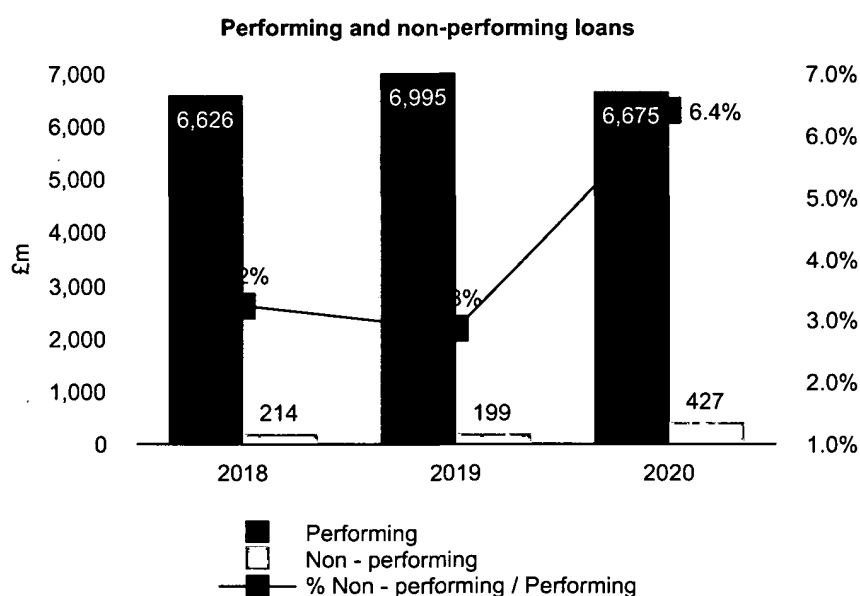
In 2020 there was a £21m income tax credit, compared to a charge of £58m in 2019. The £21m comprised a current tax credit of £26m arising from the 2020 tax loss (2019: £27m charge) and deferred tax charge of £5m, mainly due to a reduction in deferred tax asset recognised for tax losses (2019: £31m charge). See note 12 for further details.

Balance sheet review

Assets

Performing loans	Non-performing loans	New lending	Expected credit losses
£6.7b	£0.4b	£1.5b	£245m
£7.0b	£0.2b	£2.1b	£89m

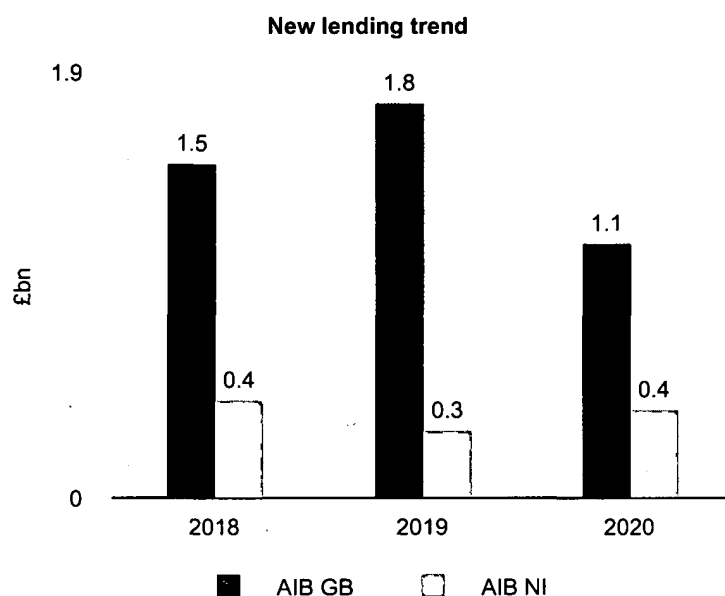
	31 Dec 2020	31 Dec 2019	change
Assets	£m	£m	%
Gross loans to customers	7,102	7,194	(1)
Expected credit losses	(245)	(89)	175
Net loans to customers	6,857	7,105	(4)
Cash and balances at central banks	4,541	3,328	36
Intercompany assets	140	255	(45)
Other assets	972	964	1
Total assets	12,510	11,652	7



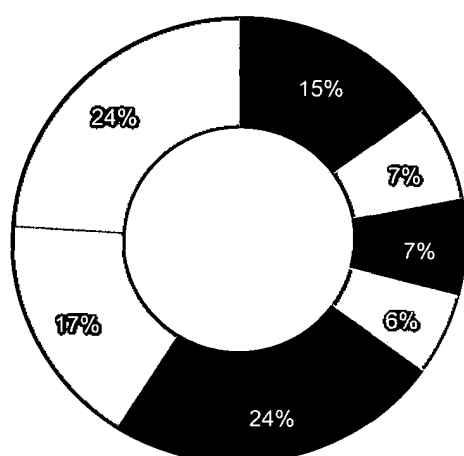
Gross loans to customers

Performing loans decreased by £320m and non-performing loans increased by £228m reflecting a net flow to non-performing as customers in difficulty increased over the period, notwithstanding the government support schemes administered. See note 20 for more detail.

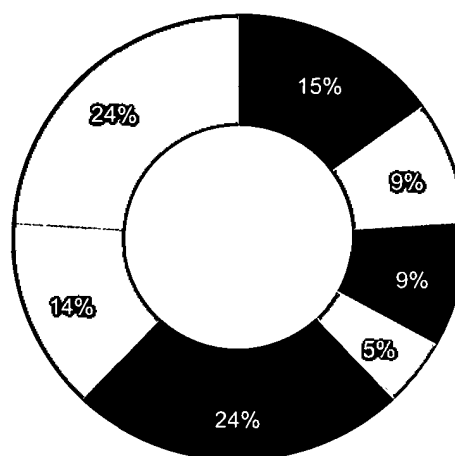
New lending



2020 UK new lending by sector

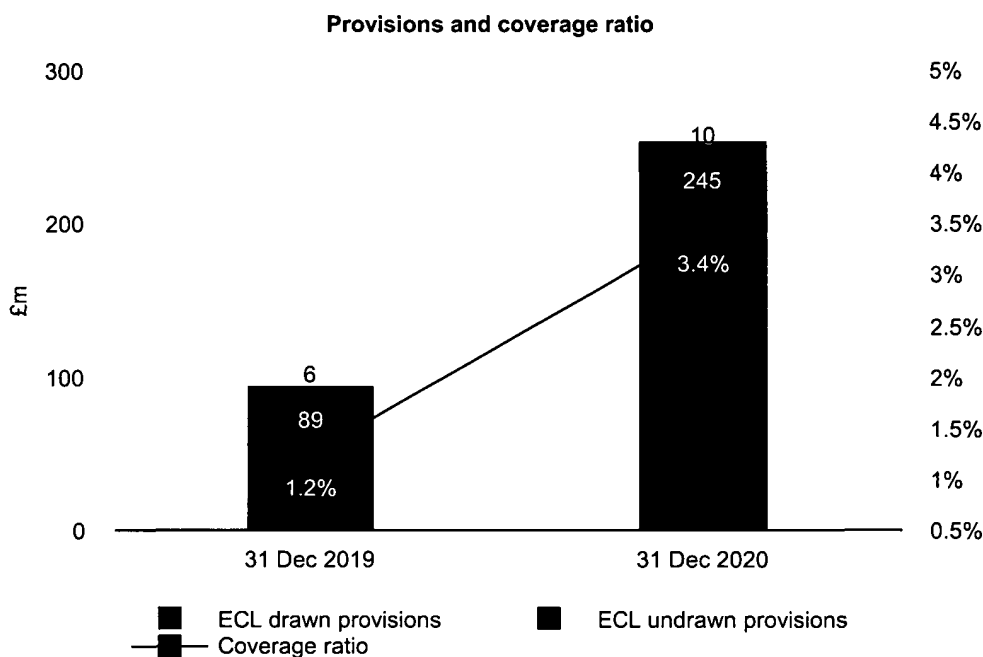


2019 UK new lending by sector



New lending of £1,541m in 2020 was lower by £540m (26%) compared to 2019. New lending decreased due to the economic and market uncertainty as result of the COVID-19 pandemic and Brexit, with reduced activity in key sectors, including Healthcare, Property and Hotels. Focused lending into the energy sector increased over the same period. New lending also included £284m administered under government backed loan schemes.

Expected credit losses



The balance sheet provision for loss allowances are on an IFRS 9 ECL basis. The ECL on loans at 31 December 2020 is £245m and ECL on undrawn facilities and guarantees is £10m. The ECL on undrawn facilities and guarantees is included in other liabilities below.

The ECL provisions on drawn loans at 31 December 2020 were £156m higher than at 2019 year-end. The increase in the ECL provision reflects the net credit impairment charge in 2020 on loans to customers.

Summary of movements in loans to customers

The table below sets out the movement in loans to customers from 1 January 2020 to 31 December 2020.

	Performing loans £m	Non-performing loans £m	Loans to customers £m
Loans to customers			
Gross loans at 1 January 2020	6,995	199	7,194
New lending ⁽¹⁾	1,531	10	1,541
Redemptions of existing loans ⁽²⁾	(1,542)	(83)	(1,625)
Write-offs and restructures	—	(20)	(20)
Net movement to non-performing	(333)	333	—
Foreign exchange movements	4	(1)	3
Other movements	20	(11)	9
Gross loans at 31 December 2020	6,675	427	7,102
ECL allowance	(89)	(156)	(245)
Net loans at 31 December 2020	6,586	271	6,857

The presentation of movements above differs from the presentation of movements reported in note 20(g) on page 113.

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

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

In note 20(g) page 113: 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
£10.8b	£1.7b
£9.9b	£1.8b

	31 Dec 2020	31 Dec 2019	change
	£m	£m	%
Customer accounts – current accounts	6,943	5,853	19
Customer accounts – deposits	3,036	3,040	—
Total customer accounts	9,979	8,893	12
Intercompany liabilities	201	330	(39)
Other liabilities	656	666	(2)
Total liabilities	10,836	9,889	10
Shareholders' equity	1,674	1,763	(5)
Total liabilities and equity	12,510	11,652	7
Loan to deposit ratio	68.9 %	80.3 %	(11)

Total customer balances increased by £1,086m in 2020, predominantly within current accounts. The increase in current accounts is reflecting higher balances from personal and business customers as spending activity reduced as a result of COVID-19 restrictions in place since March 2020.

The decrease in shareholders' equity of £89m to £1,674m is driven by the loss recorded in 2020.

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 10.4%.

Capital	Transitional £m	Fully loaded £m
CET1 at 31 December 2019	1,371	1,346
Movements:		
Reserves	40	40
IFRS 9 transitional adjustment	64	0
Deferred tax	28	28
Intangible assets	18	18
CET1 at 31 December 2020	1,521	1,432
Capital ratio at 31 December 2020	20.7%	19.7%
	Transitional £m	Fully loaded £m
Risk weighted assets		
At 31 December 2019	7,790	7,779
Credit risk	(471)	(547)
Operational risk	34	34
At 31 December 2020	7,353	7,266

Regulatory changes

COVID-19 relief

A suite of measures has been introduced to support the financial sector during the current COVID-19 pandemic. These include 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 501 and 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.

Software

In accordance with Commission Delegated Regulation (EU) 2020/2176 the deduction for intangible assets has been reduced by £10m for December 2020. The PRA have advised that it is their intention to revoke this EU regulation before 1 January 2022 and will advise firms in due course.

Transitional ratio

We currently report our capital at a transitional level. The CET1 of 20.7% increased in the year to reflect the inclusion of the 2019 operational profits netted against the 2020 losses, the movements in deferred tax and the increases in transitional IFRS 9 adjustments due to COVID-19 relief measures. These measures allow any increases in stage 1 and stage 2 ECLs from the 1 January 2020 to be added back to capital. From December 2020 a change in the prudential treatment for software assets was adopted, reducing the amount of intangible assets deductible from CET1.

Total RWA decreases reflect a reduction in customer exposures since December 2019 and the application of CRR Article 501, which allows institutions to apply a discount factor to SME exposures. This is offset by increases in off-balance sheet exposures, defaulted exposures, operational risk and derivatives.

Fully loaded ratio

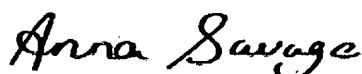
The IFRS 9 stage 1 and stage 2 add-backs for COVID-19 relief are in place for 2020 and 2021. The day one impact for ECL under IFRS 9 will be fully loaded by the end of December 2022. The removal of these transitional arrangements from capital and RWA reduces the 31 December 2020 capital ratio from 20.7% to 19.7%.

Liquidity

AIB UK Group continues to have a strong funding position. The loan to deposit ratio was 69% at 31 December 2020 (2019: 80%). 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 80% (2019: 76%) 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 2020 AIB UK Group's LCR was 178% (2019: 154%), significantly in excess of this minimum requirement in 2020.



Anna Savage

Chief Financial Officer

10 March 2021

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 are used to show the underlying performance of AIB UK Group without it being distorted by one-off or non-recurring items, which are not reflective of AIB UK Group's ongoing business activities. Items identified as adjusting will generally be evident in one accounting period only, but further detail on management's considerations is provided below for items adjusted in multiple periods.

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	<p>These are items that management believe due to their size or nature alter the comparability of performance from period to period:</p> <ul style="list-style-type: none"> – 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: provision to cover voluntary severance, 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 an annual 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 we are due to exit as part of the strategy implementation and in tandem with the restructuring provision referenced above. – Property strategy costs: investment in Northern Ireland property. – 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 the preceding financial period. See note 32 for more detail.
Cost income ratio	Total adjusted operating expenses excluding Regulatory fees divided by total operating income.
Loan to deposit ratio	Loans and receivables to customers divided by customer accounts.
Coverage ratio	Drawn credit provisions divided by drawn total loans.
Non-performing / Performing loans	<p>Under IFRS 9, loans are identified as non-performing (Stage 3) by a number of characteristics. The key criteria are:</p> <ul style="list-style-type: none"> – 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. <p>Performing loans are classified as Stage 1 or Stage 2 based on staging characteristics as reported in note 20.</p>

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 were material to the Company in the year ended 31 December 2020. The Directors also took into account the views and interests of a wider set of stakeholders, including our pensioners and our regulators. 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 group	How we engaged	How we responded
Customers	<p>Customers are at the heart of everything the Bank does. Our purpose is to back our customers to achieve their dreams and ambitions.</p> <p>During the year the Board received regular updates on a broad range of customer priorities, including the introduction of our COVID-19 related support, progress on enhancing our customer experience levels, new business performance reviews, sector and segment 'deep-dive' reviews.</p> <p>Senior management engaged regularly with customers to understand how we could better support and continue to meet their financial requirements.</p>	<p>Our key customer priority in 2020 was to support our business, corporate, mortgage and personal customers in dealing with the impact of the COVID-19 pandemic.</p> <p>In 2020 we launched a range of customer 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.</p> <p>We also continued to introduce new customer offerings, such as our Green Mortgage, the first bank in Northern Ireland to do so. This is aligned to our commitment to play a leading role in building sustainable communities.</p> <p>2020 saw the completion of our re-brand from First Trust Bank to AIB (NI) in Northern Ireland, ensuring one common brand across the UK and Parent Group.</p> <p>We made significant progress on our customer experience agenda with our AIB NI Retail NPS increasing from +44 to +49 during 2020.</p>
Our people	<p>Colleagues were asked to share their views during the COVID-19 pandemic through regular surveys.</p> <p>Regular calls for all colleagues led by the Managing Director were held to provide wellbeing, business and strategy updates.</p> <p>A video conference was held by the Parent Group Executive, which includes the UK Managing Director, to launch the new business strategy.</p> <p>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.</p> <p>One Board meeting during the year was held in a branch and Board members took the opportunity to meet with colleagues informally following this meeting. Additional Board meeting in branches could not be held due to social distancing measures due to the COVID-19 pandemic and it is planned to continue when it is safe to do so.</p>	<p>We launched our new values and behaviours in line with the Parent Group to shape our culture. Our values and behaviours are how we will deliver on our purpose.</p> <p>Regular Managing Director calls are focused on updating colleagues about wellbeing initiatives, business and strategic updates. Each call includes a Q&A session for colleagues to participate.</p> <p>Wellbeing initiatives were launched in response to the effects of COVID-19 as our ways of working significantly changed to keep our colleagues safe.</p> <p>Invest in You week was successfully held remotely across the Parent Group.</p>

Stakeholder group	How we engaged	How we responded
The Parent Group	<p>At each meeting the Board receive updates on items considered at the Parent Board from Directors who are part of the Parent Group's Executive Committee or Board.</p> <p>The Parent Group's Chief Executive Officer attends a Board meeting of the Company during the year and the Company's Chairman is a permanent invitee at the Parent Group's Board Risk Committee.</p> <p>The Company's Managing Director is a member of the Parent Group's Executive Committee.</p>	<p>We developed a new strategy, aligned to and forming part of the Parent Group's strategy, to support our objective of being a sustainable, capital accretive business.</p>
Regulators	<p>The Board has open and continuous dialogue with the Bank's regulators. The Chairman and Non-Executive and Executive Directors have formal meetings with the PRA and ongoing engagement with the FCA. In addition, individual Directors engage regularly with regulators through continuous assessment and proactive engagement meetings. Engagement increased in light of the COVID-19 pandemic response.</p> <p><i>Representatives from the PRA attended the September 2020 Board meeting to present and discuss their future expectations as set out in their annual Periodic Summary Meeting letter.</i></p>	<p>Increased engagement with the PRA to ensure continuous updates were provided on the Bank's response to the COVID-19 pandemic.</p> <p>The Board reviewed the PRA's Periodic Summary Meeting letter.</p> <p>The Board established the Technology & Operational Resilience Advisory Committee to enhance Board oversight of our operational resilience, technology and cyber strategy and projects.</p>
Communities	<p>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.</p> <p>The Bank was focused on assisting communities during the COVID-19 pandemic, providing a range of support and ensuring branches remained open.</p>	<p>Renovations in our Belfast head office continue, with some floors already completed. We also refitted branches to provide safety measures against COVID-19 for our colleagues and customers.</p> <p>We approved our Modern Slavery Statement which can be found on our website.</p> <p>Our people receive an extra two days of paid leave to give their time as volunteers and fundraisers to a charity or cause that matters to them. Colleagues voted for a new corporate charity partner for 2021 and chose Cancer Research UK.</p>

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
COVID-19 pandemic response		
The pandemic had a significant impact on all stakeholder groups and we acted to protect our customers, colleagues and the business.	Customers	Participated in government backed loan schemes to provide assistance to existing business account customers.
	Our people	Many colleagues able to do so have been working remotely since March. New procedures, cleaning regimes and equipment have been installed in branches and offices to keep colleagues safe.
	Regulators	Increased engagement throughout the pandemic.
	Communities	Branches remained open for customers and communities in Northern Ireland throughout the pandemic.
Strategic development		
In 2020 the Board approved a new strategy.	The Parent Group	The strategy was developed alongside and aligned to the Parent Group's strategy. The strategy was approved as it was considered most likely to promote the success of the Company.
	Customers	The strategy focuses on reducing complexity to provide a more agile service to our customers and a growth commitment will increase opportunities for our customers to drive their own ambition.
	Our people	Talent and capability was a key consideration of the strategy. Considerations included the need and impact of a voluntary severance programme.
	Regulators	Seeks to mitigate financial risks from climate change, Brexit and COVID-19 pandemic. Considers regulatory requirements in respect of branch and ATM closures. Includes plans to develop a stakeholder management team that would include engagement with regulators.
	Communities	Growth in key areas such as renewables aligns with the ambition to provide sustainable finance to sectors required to transition to a low carbon economy.
Core modernisation project		
The Board approved a provider for business credit accounting	The Parent Group	Alignment with The Parent Group's technology modernisation project.
	Regulators	Enhancements in respect of systems and controls and operational resilience. Modernising the technology would allow a more effective customer journey.
	Customers	Opportunities to enhance customer experience.
Appointment of CFO		
The appointment of Anna Savage as CFO, following the resignation of Rachel Lawrence, was a key strategic decision.	The Parent Group	Anna was previously the Head of Finance for the AIB Group Retail Bank and member of the AIB Group Finance Senior Management Team and her appointment strengthens the relationship between AIB UK and the Shareholder, which is important to the implementation of the strategy and maximising shareholder value.
	Customers	Anna has previously been involved in customer enhancements through the design of customer value management segmentation linking customer analytics and finance data.
	Our people	Anna is the Executive sponsor for colleague wellbeing programmes.
	Regulators	The appointment was subject to the approval of the PRA.

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. Risk is defined as any event that could 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 Group and is a key part of its overall strategy in achieving sustainable growth. Every colleague 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 and managing risks is summarised in the 12 Risk Management Principles set out in the overarching AIB Group Risk Management Framework.

The Risk Management Principles reflect the Bank's risk philosophy and culture, and articulate the high standards against which risk-taking decisions are made.

Enhancements to the risk management approach in 2020 focused on:

- Adapting processes and controls to support customers, enhance monitoring and provide agile solutions in response to the coronavirus pandemic, the national and supranational public policy introduced to control the spread of the virus, and the corresponding economic impacts;
- Continued application of the roles and responsibilities applicable to the Three Lines of Defence model, to further embed accountability in risk management activities and decision making; and
- Strengthening the linkage across key risk processes, 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') and Recovery Planning) to support organisational preparedness against a backdrop of unusually high macroeconomic uncertainty, the end of the transition period between the UK and the EU and the financial risks related to climate change.

Risk Management Principles

Strategy & Appetite

1. The Board has ultimate responsibility for the governance of all risk taking activity in the Bank.
2. The Bank's Risk Appetite Statement defines the amount of risk that AIB UK is willing to accept or tolerate to deliver on its strategic and business objectives.
3. The Bank has adopted a three lines of defence model.

Identification & Assessment

4. The Bank identifies, assesses and reports all its material risks.
5. Risk Management is embedded in the strategic planning, performance management and 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

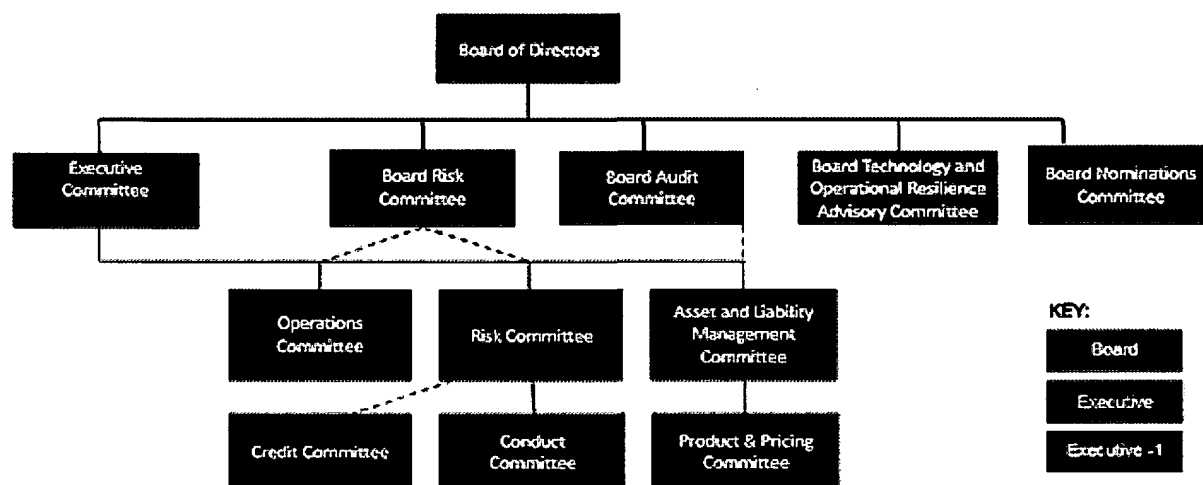
9. The Bank supports the delivery of a strong risk culture
10. Risk Management capabilities are valued, encouraged and developed

Control Environment

11. The Bank has a system of internal controls designed to mitigate rather than eliminate risk.
12. The Bank has implemented and embedded a comprehensive, fit-for-purpose framework and policy architecture.

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 committees. The activities of the Board and Board sub-committees are included in the Corporate Governance Report on pages 37 to 42.



UK Executive Committee (UK 'ExCo')

The UK ExCo 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, controlled and reported in accordance with the AIB 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 Chief Financial Officer ('CFO') and is responsible for the review and management of funding and capital implications to the balance sheet, monitoring asset and liability management against approved risk appetite limits and 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 service and outsourced performance, business continuity, data analytics and 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 Head of Products, Propositions & Customer Advocacy. The committee is responsible for the oversight of conduct across AIB UK and provides assurance to the UKRC and the UK Board that AIB UK's conduct risk management is consistent with UK regulatory requirements, with AIB UK strategy, and with the AIB UK 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, Propositions & Customer Advocacy. 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 a senior manager 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 Credit Committee is a sub-committee of the AIB plc 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.

The approach to the 3LOD continues to evolve and embed. Over the course of 2020 further work was undertaken to apply the detailed principles, roles and responsibilities across the first and second lines of defence across the business at a material risk level, to provide clarity regarding risk management accountabilities.

Three Lines of Defence	
First Line of Defence	Business Lines own the risks and are responsible for identifying, recording, reporting and managing them, and ensuring that the right governance, controls and assessments 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 undertaken across AIB UK Group.
Second Line of Defence	Risk and Compliance ('Risk') provide independent oversight and challenge with regards to risk management, and advice and guidance in relation to risk. This includes the setting of risk strategy (articulated through the Risk Plan), frameworks and policies, and limits consistent with Risk Appetite, as well as credit sanctioning activities, monitoring and challenging the effectiveness of risk management and control processes, and providing independent assessment and reporting on AIB UK's risk profile. This is supported by second line assurance activity to assess the design and effectiveness of the control environment.
Third Line of Defence	Group Internal Audit is an independent function within the organisation, providing to the Board Audit Committee an objective 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

AIB UK's Risk Appetite Statement ('RAS') defines the amount of risk that the Bank is willing to take, accept or tolerate in pursuit of its strategic and business objectives. AIB UK's 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. These are cascaded through the business in frameworks, policies, authorities and limits. This is a key mechanism to supporting the embedding of a strong risk culture and to foster responsible risk-taking and risk management behaviours throughout the organisation. Performance against risk appetite is reported to the Board on a monthly basis.

In response to the coronavirus pandemic, more frequent reviews of appetite calibration have been undertaken to ensure appropriate parameters are in place to support the Bank and its customers in the current period of economic downturn and ongoing uncertainty.

Risk assessment

The Bank identifies, assesses and reports all of its material risks. AIB UK undertakes a top-down Material Risk Assessment ('MRA') process at a minimum annually, and more frequently in times of rapid change to the internal or external environment, such as during the coronavirus pandemic. The MRA identifies and assesses the principal risks to which it is exposed in the context of achieving the approved strategy, to ensure that threats are being appropriately managed and considered for capital purposes. This also includes consideration of external risk drivers that could influence the impact or likelihood the Bank's material risk, with one such emerging threat being climate change, where its effects are being felt now, but it may take much longer for the financial impacts to fully materialise. The high level material risks identified as part of the MRA applicable during the reporting period are set over the following pages. As well as identifying material risks, the MRA is a key input into:

- The RAS, informing decisions around risk tolerance in pursuit of its business objectives;
- The Financial Plan, which details the financial objectives required to achieve the Business Strategy;
- A comprehensive framework and policy architecture, for managing and mitigating risk;
- Risk reporting, in the form of the monthly CRO's Report; and
- The Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process 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, processes, the internal or external environment, or to events that have occurred, to ensure that all risks are identified, evaluated and controlled in a consistent manner. For some risks, such as compliance and operational risk, the bottom-up risk assessment may take the form of a Risk & Control Assessment ('RCA'). Other risks, such as credit and financial risk, lend themselves to more quantitative risk measurement methodologies. The frequency and nature of the risk assessments may vary depending on the risk.

Other assessments of risk are undertaken, as required, focusing on the nature of the risk, the adequacy of the internal control environment and whether additional management action is required. Periodic risk assessments are also undertaken in response to specific internal or external events.

Strategic risk	
<p><i>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.</i></p>	<p>Key Risk Indicator £(62)m Adjusted Loss Before Tax 2019: £172m Profit</p>
<p>Status & Outlook</p> <p>AIB UK's immediate focus in 2020 was on supporting customers in the face of severe financial adversity due to the direct and indirect impact of COVID-19 and in safeguarding staff through implementation of alternative working practices.</p> <p>A new three year strategy will begin implementation from 2021 and has been formulated in the context of the uncertainty associated with Brexit, the coronavirus crisis and meeting the Parent Group and AIB UK Group medium term targets for Return on Equity in the face of expected longer term low interest rate environment. This will see significant change to the UK business, including a refocus on targeted sectors in the GB Corporate Banking market.</p> <p>The Bank recognises that climate change is a huge 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.</p> <p>The risk is assessed as High with a stable outlook. (2019 rating: Medium with a stable outlook).</p>	<p>Mitigation</p> <ul style="list-style-type: none"> Strategic planning is supported by an integrated, risk-focused approach to financial planning. Detailed plans for implementation of the new strategy are being developed and subject to rigorous review and challenge through UK ExCo. 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 Bank will continue to integrate consideration of physical and transitional risks associated with climate change into the risk management processes and policies, including enhancing the measurement and monitoring of the impacts across the portfolio.

Capital Adequacy risk	
<p><i>The risk that the Bank breaches, or may breach, regulatory capital ratios.</i></p>	<p>Key Risk Indicator 20.7% Total Capital Ratio⁽¹⁾ 2019: 17.6%</p>
<p>Status & Outlook</p> <p>The key material risks impacting on the capital adequacy position of AIB UK Group are Credit Risk and Strategic Risk, although all material risks can to some degree impact capital ratios.</p> <p>Whilst COVID-19 has driven a higher ECL than expected, this has been partially offset by new transitional arrangements. 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.</p> <p>The risk is assessed as Medium with a stable outlook. (2019 rating: Medium / Low with a stable outlook).</p>	<p>Mitigation</p> <ul style="list-style-type: none"> 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.

⁽¹⁾ The CET1 ratio for 2020 includes add-backs for COVID-19 reliefs, which are not included in the 2019 calculation. When these reliefs are excluded, the CET1 ratio at 31 December 2020 reduces from 20.7% to 19.7%.

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.

Key Risk Indicator

£353m

Migration to S3
2019: £148m

Status & Outlook

The economic impact arising from COVID-19 has been significant and has given rise to a higher risk that the Bank's customers may be unable to meet their loan repayment commitments. To date, AIB UK has experienced a deterioration in the portfolio credit quality, with Stage 2 book standing at £1,180m (compared to £577m Dec 2019). Following the announcement of further lockdown restrictions in quarter 4, there has been further downward flow to Stage 3.

The lending portfolio is well spread by name, sector and geography within the UK. However, the macroeconomic headwinds associated with the exit of the UK from the EU, the disproportionate impact of restrictions to reduce the spread of COVID-19 on particular sectors (e.g. Hotel and Leisure industry) and the emerging risks relating to climate transition continue to be closely monitored.

The risk is assessed as High with an increasing outlook.

(2019 rating: Medium / High with an increasing outlook).

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.
- Credit management processes were enhanced to manage asset deterioration in relation to the pandemic, ensuring sectoral impacts of COVID-19 were incorporated into case and portfolio reviews. Simultaneously, AIB UK delivered a number of customer support solutions (including payment holidays, interest only options and relaxation of covenants) and provided additional financing through government support schemes, alongside the formation of a specialist team housed with UK FSG to help customers affected by the pandemic,
- UKRC monitors the risk profile of the credit portfolio to identify trends and provide oversight of the management of key risks within the lending portfolio.
- Detailed reports including sector specific and COVID-19 and / or Brexit-related risks are considered regularly by the Executive and the Board Risk Committees.

Liquidity & Funding risk

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

Key Risk Indicator

178%

Liquidity Coverage Ratio
2019: 154%

Status & Outlook

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

The liquidity surplus held by the Bank at the beginning of the year has increased with a rise in customer deposits during the pandemic.

The risk is assessed as Medium / High with a stable outlook.

(2019 rating: Medium / Low with a stable outlook).

Mitigation

- The Liquidity Risk Framework and policies are supported by a frequent monitoring of key liquidity indicators against risk appetite limits, forward-looking liquidity stress testing and Contingency Liquidity Plan, which sets out management actions for a liquidity stress situation.
- Bank funding is derived from various funding channels, which improves the ability to withstand unexpected liquidity shocks.
- While impact of the pandemic has led to an increase in both retail & wholesale deposits, the Bank nevertheless maintained a heightened degree of portfolio monitoring during the year in response to the broader macroeconomic environment.

Financial risk

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

Key Risk Indicator

-£54m

NII Sensitivity to a
-100bps movement in
all interest rates
2019: -£68m

Status & Outlook

AIB UK does not retain material market risk on its balance sheet, although is sensitive from an earnings perspective to large interest rate movements. Uncertainty related to transition from LIBOR to risk-free rates and potential deployment of negative interest rates is regularly monitored.

The risk is assessed Medium with an increasing outlook.

(2019 rating: Medium / Low with a stable outlook).

Mitigation

- The Market Risk Framework and related policies are in place to support the management of this risk, with UK market positions reviewed by the UK ALCo, including performance against risk appetite.
- The Bank substantially reduces exposure to Interest Rate Risk in the Banking Book ('IRBB') through hedging, which is conducted on AIB UK's behalf by Parent Group Treasury.
- Group-wide Interbank Offered Rate ('IBOR') transition programme has been established with implementation plans, customer communications and internal training developed.
- A UK working group has been established to assess tactical solutions for the potential deployment of negative interest rates.

Operational risk

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

Key Risk Indicator

Nil

Material System
Outages in 2020
2019: Nil

Status & Outlook

This risk encompasses a broad range of sub-risks.

The pandemic required the Bank to adapt operational processes including ensuring social distancing in its branches and properties, enabling remote working, increased use of digital processes and additional measures to support customers affected by COVID-19.

In line with all areas of industry, AIB UK is constantly facing hostile 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.

During any period of change, operational risk becomes heightened, and in conjunction with managing the impacts of the pandemic and Brexit, the Bank will also be implementing regulatory projects and executing its new three year strategy.

The risk is assessed as Medium / High with an increasing outlook.

(2019 rating: Medium / High with a stable outlook).

Mitigation

- The Operational Risk Management framework is supported by a comprehensive suite of policies and procedures, together with controls to test adherence. In addition, AIB UK has an ongoing systems and controls enhancement programme to implement continuous standard improvements.
- Operational contingency plans are maintained and were invoked in response to the COVID-19 crisis and operational resilience demonstrated with successful provision of services since the onset.
- 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 outsource providers for the provision of its various systems and services on an ongoing basis.
- The Bank operates a change policy that sets out the roles and responsibilities of change management, delivery and execution across the three lines of defence.

Regulatory & Compliance risk

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

Key Risk Indicator

Nil

Material Regulatory Breaches in 2020
2019: Nil

Status & Outlook

While the financial sector has experienced a high pace, volume and complexity of regulation change, there have been no instances of material non-compliance by AIB UK, including during the pandemic. There continues to be uncertainty as to the impact of the UK's withdrawal from the EU; the resulting legislative and statutory instrument changes, and the risk of regulatory divergence between the UK and EU will require close management with the Parent.

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 criminals exploiting social engineering techniques. In addition, the speed of deployment of the UK Government COVID-19 support schemes and lack of standard credit checks for the BBLS could lead to fraudulent applications, noting that schemes are only offered to existing AIB UK customers.

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.

The risk is assessed as Medium with a stable outlook.
(2019 rating: Medium with a stable outlook).

Mitigation

- AIB UK conducts ongoing horizon scanning to identify changes in regulatory and legal requirements and includes addressing the UK regulator's key priorities related to managing the financial risks associated with climate change.
- The Bank's Brexit contingency planning has been maintained throughout the transition period, and developments in the future relationship between the UK and EU will continue to be monitored.
- AIB UK operates a range of controls to detect and prevent fraud including membership of Cifas and involvement in the customer awareness 'Take Five to Stop Fraud' campaign. AIB UK has invested in transaction monitoring technology designed to identify and prevent suspicious payments that may be fraudulent. During 2020, Secure Customer Authentication ('SCA') was implemented as a requirement of the Payment Services Directive 2 ('PSD2'), enhancing the security around making e-payments.

Conduct risk

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

Key Risk Indicator

1.06

Banking & Credit Card complaints per 1,000 accounts, H2 2020
H2 2019: 1.23

Status & Outlook

AIB UK offers a relatively simple product suite that minimises the risk of poor customer outcomes. Nevertheless, the risk has increased with the rapid implementation of a range of measures to support customers through the COVID-19 crisis.

In 2020, the Bank has focused on reviewing practices and processes to assist vulnerable customers. This included engaging and partnering with external charities to leverage off their expertise and gain a better understanding of the needs of the vulnerable.

The risk is assessed as Medium / High with an increasing outlook.

(2019 rating: Medium with a stable outlook).

Mitigation

- AIB UK is committed to driving the right culture throughout the Bank. Each business area is responsible for identifying conduct risks and the 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 changes to the characteristics of existing offerings, which identifies and assesses potential risks 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		
<p><i>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.</i></p>		<p>Key Risk Indicator N/A</p>
<p>Status & Outlook</p> <p>The ability of the AIB UK to deliver its strategy is dependent on the talents and efforts of skilled personnel. The Bank's people have continued to deliver for its customers throughout the pandemic and demonstrated resilience to the new ways of working.</p> <p>The new three year strategy may introduce additional risks in relation to capability and engagement and implementation plans will consider these factors throughout the transition.</p> <p>The risk is assessed as Medium with an increasing outlook (2019 rating: Medium with a stable outlook).</p>	<p>Mitigation</p> <ul style="list-style-type: none"> • The Bank is committed to investing in the continued personal development of its people and senior leadership population to build organisational capability. • Enhanced cultural values and behaviours were launched in 2020 that will continue to be embedded in 2021. • Various initiatives have been introduced to support colleagues and people leaders as part of the Bank's wellbeing programme to enhance remote working capabilities including provision of technology and equipment to those working from home. 	

Model risk		
<p><i>The risk that the Bank may incur a loss as a consequence of decisions that could be principally based on the output of models, due to errors in the development, implementation or use of such models.</i></p>		<p>Key Risk Indicator N/A</p>
<p>Status & Outlook</p> <p>AIB UK continues to build on modelling capabilities primarily as they relate to credit risk and financial risk, to support both strategic priorities and improve the customer experience.</p> <p>The unique nature of COVID-19 means that model outputs have required adjustment and expert judgement, thereby heightening the risk.</p> <p>The risk is assessed as Medium / High with an increasing outlook. (2019 rating: Medium with a stable outlook).</p>	<p>Mitigation</p> <ul style="list-style-type: none"> • The Model Risk Framework and supporting Model Risk Policies ensure that this risk is managed throughout the model lifecycle, including 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. • PMAs are subject to frequent review and challenge at executive committees. 	

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 ExCo;
- 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 AIB Group Subsidiary Governance Framework ('Framework') which covers the leadership, direction and control of the Parent Group. This Framework reflects UK company law and EBA Guidelines and 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 Internal Liquidity Adequacy Assessment Process ('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, ExCo and Company Secretary are set out below:

Chairman

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-Executives and ensuring proper induction and ongoing training for all).

Deputy Chairman/Senior Independent Director

Available to both shareholders 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 the 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.

Managing Director

Responsible for the day-to-day running of the Bank, ensuring an effective organisation structure, the appointment, motivation and direction of ExCo, and for the operational management of the Bank.

Executive Committee

The most senior executive committee of the Bank accountable to the Managing Director. Subject to financial and risk limits set by the Board, the ExCo, 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 Chairman 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 ExCo 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 2020 were independent. Notwithstanding each of Cathy Bryce and Tom Foley'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.

Terms of appointment and time commitment

The Company maintains clear records of the terms of service of the Chairman and 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.

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 Chairman and the Company Secretary must be sought.

Performance evaluation

There is a formal process in place for the annual evaluation of the Board's performance and that of its principal committees and individual Directors. In accordance with the UK Corporate Governance Code, an external evaluation is conducted at least every three years.

An external evaluation took place during the year conducted by Linstock Limited. The Chairman also met with individual Directors to review their performance and the SID led an evaluation of the Chairman's performance with the other Directors.

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 ExCo. The ExCo 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. The composition of the committees is reviewed annually. 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 Board Directors and members only is included below.

Board and committee meeting attendance

	Board	Audit Committee	Risk Committee	Nomination Committee
<i>Number of meetings held</i>	11	9	8	6
Chairman				
Peter Spratt*	11/11	-	8/8	6/6
Non-Executive Directors				
Bruce Robinson* <i>(resigned 23 August 2020)</i>	7/7	6/6	-	5/5
Graham Buckland* <i>(member of Audit Committee until 28 May 2020)</i>	11/11	4/4	8/8	6/6
Cathy Bryce <i>(appointed 12 March 2020)</i>	3/9	-	-	-
Tracy Dunley-Owen* <i>(appointed 9 April 2020)</i>	8/8	7/7	-	-
Tom Foley	11/11	-	-	-
Paul Horner* <i>(appointed 12 February 2020)</i>	10/10	8/8	7/7	-
Jim O'Keeffe <i>(resigned 31 January 2020)</i>	0/0	-	-	-
Roger Perkin*	11/11	9/9	8/8	-
Shelley Malton*	11/11	-	-	5/6
Executive Directors				
Rachel Lawrence <i>(resigned 7 August 2020)</i>	6/6	-	-	-
Robert Mulhall <i>(appointed 9 March 2020)</i>	7/7	-	-	-
Brendan O'Connor <i>(resigned 11 March 2020)</i>	2/2	-	-	-
<i>*Independent</i>				

A total of 11 Board meetings were held during 2020 (2019:10). The Non-Executive Directors also met on several occasions in the absence of the Executive Directors. In addition to formal Board meetings, a number of Board update calls were held throughout the year in response to the COVID-19 pandemic.

Where Directors were unable to attend meetings they received the reports and supporting documents associated with the meeting. Directors provided feedback to the Chair of the meeting, where necessary.

Board Audit Committee

9 meetings during 2020 (2019:8)

Roger Perkin (*Chair*)
Bruce Robinson (*until 23 August 2020*)
Graham Buckland (*until 28 May 2020*)
Paul Horner (*from 12 February 2020*)
Tracy Dunley-Owen (*from 9 April 2020*)

Responsibilities

The committee is responsible for:

- the quality and integrity of Bank's accounting policies, financial statements and disclosure practices;
- compliance with relevant laws, regulations, codes of conduct and conduct of business rules;
- 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 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 2020

During 2020 the committee:

- 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 CRO, the external auditor and the Head of Compliance and Financial Crime Prevention that the system of internal controls over financial reporting was effective;
- considered COVID-19 related impact on expected credit losses, Grading and Staging Principles and implications for the application of IFRS 9 models and scenarios and Alternative Performance Measures;
- approved the appointment of the UK Head of Internal Audit. 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;
- reviewed a revised internal audit plan to cover areas of greater risk as a result of the COVID-19 pandemic;
- received regular updates from the CRO and the Head of Compliance and Financial Crime Prevention 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;
- held formal confidential consultations with the external auditor and the Group Internal Audit function, in each case with only Non-Executive Directors present;
- oversaw the relationship with the external auditor. During the year, the committee considered the auditors' terms of engagement, their independence and objectivity and approved the audit plan (including methodology and risk identification processes); and
- 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.

Board Risk Committee

8 meetings during 2020 (2019:8)

Paul Horner *(Chair from 28 May 2020)*
Graham Buckland *(Chair until 28 May 2020)*
Roger Perkin
Peter Spratt

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. The committee attends private sessions with the CRO, Head of Compliance and Financial Crime Prevention at least bi-annually.

Activities in 2020

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 and related mitigants;
- COVID-19 implications and response. This included credit grade and stage migration, updated risk assurance plans, updated Material Risk Assessment and reports on operational risk;
- Risk Appetite Statement, including updates related to the response to the COVID-19 pandemic;
- Quarterly 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;
- the funding and liquidity policy, strategy and related stress tests, and the Internal Liquidity Adequacy Assessment;
- risk frameworks and policies relating to credit, capital management, financial, market and conduct risks;
- capital and liquidity planning including consideration of the AIB UK Group ICAAP and ILAAP and related stress test scenarios;
- recovery planning and business continuity management;
- 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;
- Modern Slavery Act statement;
- the Bank's risk management infrastructure including actions taken to strengthen its risk management governance, people skills and system capabilities;
- Brexit impact updates; and,
- thematic reviews of business sectors.

Nomination Committee

6 meetings during 2020 (2019:6)

Peter Spratt (*Chair*)
Graham Buckland
Shelley Malton
Bruce Robinson (*until 23 August 2020*)

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 2020

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 Brendan O'Connor by Robert Mulhall as Managing Director and the replacement of Jim O'Keeffe by Cathy Bryce as a Non-Executive Director;
- endorsed the appointment of Anna Savage as CFO, on an interim basis (laterally approved as permanent in 2021), replacing Rachel Lawrence;
- reviewed and endorsed a reorganisation of the executive management structure;
- considered and approved a new board skills matrix and identified areas of emerging challenges;
- recommended the appointment of Graham Buckland as Senior Independent Director, replacing Bruce Robinson;
- reviewed the membership of board committees and recommended changes thereto; and
- reviewed the board effectiveness evaluation and recommended an action plan to the board to address areas identified for enhancement.

The committee remains committed to encouraging diversity, whilst ensuring that the dynamics and skills set of the Board continues to meet the expectations of our stakeholders. During 2020 the committee recommended and the Board adopted a Board Diversity Policy. To address the current underrepresented gender on the Board, a target has been set to maintain at least 30% female representation and continually take opportunities to increase the number of female directors over time where that is consistent with other skills and diversity requirements. To address Black, Asian and Minority Ethnic ('BAME') under-representation on the Board, a target of at least 1 BAME member by 2024 has been set. At 31 December 2020, female representation on the Board was 33%.

Board of Directors



Peter Spratt

Independent Non-Executive Chairman



Graham Buckland

Senior Independent Director & Deputy Chair



Cathy Bryce

Non-Executive Director



Tracy Dunley-Owen

Independent Non-Executive Director



Tom Foley

Non-Executive Director

Appointed to the Board

March 2015
(Chairman - March 2016)

March 2017

March 2020

April 2020

April 2014

Key areas of expertise

Finance, Audit, Business recovery and restructuring

Corporate Banking

Capital Markets and Commercial Banking

Risk, Audit, Financial Services, Technology and Transformation

Business Banking, Treasury, Finance, Audit, Risk, Strategy, Policy Development

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 Financial Times Stock Exchange 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 seven sector specialist industry teams and also with responsibility for Barclays' large corporate clients in the UK.

Cathy is currently Managing Director of Corporate, Institutional & Business Banking for AIB plc, having re-joined the Parent Group from her most recent role at the National Treasury Management Agency where she held the position of Director, NewERA and NDFA.

As well as her time in the Parent Group previously, where she gained over 20 years' experience in a range of capital markets and commercial banking roles, Cathy has worked in investment banking in London with Morgan Stanley and ABN AMRO in Dublin. She is a business graduate of Trinity College Dublin and holds an MBA from INSEAD.

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.

Tom qualified as a Chartered Accountant with PwC. He is a former Executive Director of KBC Bank Ireland and held a variety of senior management and board positions with KBC.

During the financial crisis, Tom was a member of the Nyberg Commission of Investigation into the Banking Sector and the Irish Department of Finance Expert Group on Mortgage Arrears and Personal Debt.

Key external appointments

None

Look Ahead Care & Support (charity)

None

Simplyhealth Group Limited, Sun Life Assurance Company of Canada (UK) Limited, Nucleus Financial Group plc.

Intesa Sanpaolo Life Limited, EBS d.a.c



Paul Horner	Shelley Malton	Roger Perkin	Robert Mulhall
Independent Non-Executive Director and Chairman of the Risk Committee	Independent Non-Executive Director	Independent Non-Executive Director and Chairman of Audit Committee	Executive Director and Managing Director
Appointed to the Board			
February 2020	December 2018	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	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 Commercial and Consumer business; and subsequently for RBS' international businesses during a large restructuring programme. He was appointed Managing Director and 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. 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.	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. and Evolution Group 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 and Coutts & Company Limited	None	TP ICAP plc and Hargreaves Lansdown plc	None

Directors' Report

We present the annual report and the audited financial statements for AIB Group (UK) p.l.c. and its subsidiaries for the year to 31 December 2020. A Directors' responsibility statement is shown on page 50.

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:

Strategic report	Pages 2 to 28
Risk management report	Pages 29 to 36
Corporate governance report	Pages 37 to 42
Financial statements	Pages 61 to 65

Specifically, an indication of likely future developments is given in the Strategic report on pages 4 to 14, capital management on pages 23 to 24, financial instruments in notes 37 and 38 on pages 138 to 144 and events after the reporting date in note 44, page 152.

Results

Our after tax loss for the year ended 31 December 2020 was £84m (2019: £106m profit) and was calculated as shown in the consolidated income statement on page 61.

Dividends

We did not pay a dividend during the year ended 31 December 2020 (2019: £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 (2019: £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 pages 26 to 28 for the Company's Section 172 statement.

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 2020, is set out on pages 43 to 44. The following Board changes occurred, with effect from the dates shown:

- Jim O'Keeffe resigned as a Director on 31 January 2020;
- Paul Horner was appointed as a Director on 12 February 2020;
- Robert Mulhall was appointed as a Director on 9 March 2020;
- Brendan O'Connor resigned as a Director on 11 March 2020;
- Cathy Bryce was appointed as a Director on 12 March 2020;
- Tracy Dunley-Owen was appointed as a Director on 9 April 2020;
- Rachel Lawrence resigned as a Director on 7 August 2020;
- Bruce Robinson resigned as a Director on 23 August 2020; and,
- Brian Kearns resigned and Elizabeth Hallissey was appointed as Company Secretary on 11 December 2020.

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 37.

We consider the 2020 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 2020 is appropriate and decided that it is. The reasons for this decision are set out in the 'Going Concern' section of note 1.3 on page 68.

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 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 pages 15 to 24, and the governance and oversight through which AIB UK manages and seeks where possible to reduce its risks as described on pages 29 to 31. 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 31 to 36.

While we acknowledge that ongoing operations of AIB UK Group are reliant on support from the Parent Group as a service provider, 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 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 2021.

Legislative changes

On 31 December 2020, The UK left the Brexit transition phase and is no longer subject to EU regulation. Practically speaking, most of the EU regulation has been on-shored onto the UK statute book, with a few exceptions, and therefore the regulatory landscape remains much the same. Moving forward however we are likely to see regulatory divergence and AIB UK 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 through the Open Banking Implementation Entity. The first phase of this was launched in early 2018 and the roadmap of changes being implemented will continue into 2021. PSD2 also introduces the concept of customers using trusted third party providers to access their online bank accounts and make payments on their behalf. This is all designed to open the banking market to competition particularly from the emerging Fintech sector.

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. 2020 saw the introduction of SCA for online and mobile channels in 2020 and this will continue into 2021 with the implementation of SCA for card transactions by September 2021 at the latest.

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. 2020 saw the implementation of the high cost of credit regulations limit the cost of credit, particularly for more vulnerable personal customers making use of unauthorised overdrafts. In 2020, we also saw a number of regulatory interventions to enable banks to assist customers through the COVID-19 pandemic. These interventions included mortgage payment breaks, interest free overdrafts, payment breaks for credit cards and government supported loan schemes to support business customers. AIB delivered all of these support mechanisms to our customers and this continues into the early part of 2021.

AIB UK may be subject to allegations of mis-selling of financial products, as a result of having sales practices or reward structures in place that were inappropriate, or allegations of overcharging and breach of contract or regulations. The risk has been heightened in light of the COVID-19 product modifications implemented over the course of 2020 as set out above. Such allegations may result in adverse regulatory action including significant fines or requirements to amend sales practices, withdraw products or provide restitution to affected customers, any or all of which could result in significant costs, may require provision, and could adversely impact future revenues.

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 is in compliance with the requirements of the Large & Medium-Sized Companies and Groups (Accounts & Reports) Regulations 2008.

The energy and carbon emissions data set out below, is related to the period 1 January to 31 December 2019 (inclusive), as 2020 sustainability reporting is yet to be completed. 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 is responsible for the utility costs.

AIB UK has a dedicated Energy Team which delivers the energy management strategy derived from the AIB Energy Policy. In addition to having 100% renewable electricity supply to the UK locations, a biogas supply was procured during 2019 to further enhance AIB UK's commitment to sustainability and reduction of the carbon footprint from its operations. AIB UK has reporting obligations under the Energy Savings Opportunity Scheme ('ESOS') and has achieved ISO 50001:2018 certification during 2019 which satisfies the specific ESOS requirements for the Company.

To reduce the energy consumption of our UK property portfolio we have adopted a continual improvement approach to increase our energy efficiency in our operations based on ISO 50001. In 2019, our focus was on improving operational controls to align with building occupancy and increasing staff awareness of their actions relating to energy consumption and carbon emissions. No significant projects were undertaken except to replace end of life equipment, saving 80,000 kWh.

Our CO2 emissions (1 January to 31 December)	2019⁽¹⁾
Location-based carbon emissions	
Total tCO ₂ e ⁽²⁾	2,857.8
Total Scope 1 ⁽³⁾ (natural gas, heating oil & car fuel)	282.2
Total Scope 2 ⁽⁴⁾ (purchased electricity)	564.1
Total Scope 3 ⁽⁵⁾ (rental car & staff business car travel)	2,011.5
Out of Scope ⁽⁶⁾ (green gas from biomass)	16.0
Market-based carbon emissions	
Total tCO ₂ e ⁽²⁾	2,236.1
Total Scope 1 ⁽³⁾ (natural gas, heating oil & car fuel)	282.2
Total Scope 2 ⁽⁴⁾ (purchased electricity)	—
Total Scope 3 ⁽⁵⁾ (rental car & staff business car travel)	1,953.9
Out of Scope ⁽⁶⁾ (green gas from biomass)	16.0
Intensity ratio⁽⁷⁾	
Total full time equivalent ('FTE')	1,026
Total CO ₂ e per FTE location-based (tonnes)	2.8
Total CO ₂ e per FTE market-based (tonnes)	2.2
Energy consumption (kWh)⁽⁸⁾	4,036,114

⁽¹⁾The carbon reporting year for our GHG emissions is 1 January to 31 December 2019. The carbon reporting year is not aligned to the financial reporting year. AIB UK Group 2019 emissions and details of our approach to assurance over the data can be found here: <https://aib.ie/sustainability>.

⁽²⁾Methodology in line with the GHG Protocol: A Corporate Accounting and Reporting Standard and Defra Voluntary Reporting Guidelines. We have adopted the operational control approach on reporting boundaries to define our reporting boundary. They include all locations where AIB UK is responsible for the utility costs.

⁽³⁾Scope 1 include fuels combustion, AIB UK's fleet and fugitive emissions from the UK. Green gas consumption is excluded from the data reported.

⁽⁴⁾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, colleague commuting and fuel-and-energy-related activities.

⁽⁶⁾Out of scope: CO₂ emissions from biomass combustion (green gas).

⁽⁷⁾Intensity ratio calculations have been calculated using FTE figures as per the 2019 AIB UK Group Annual Financial Report.

⁽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.

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.

We have constructive working relations with the unions that represent our colleagues, who are consulted regularly on a wide range of matters affecting their current and future interests.

The Board receives periodic reports on people and culture, including engagement. Engagement has been monitored through surveys addressing COVID-19 working arrangements, engagement and wellbeing. The MI received by the Board also includes colleague updates. Further work related to colleague engagement is planned for 2021.

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 2020.

Independent auditor and audit information

Deloitte LLP, Statutory Auditors, were appointed as our auditor and those of our Parent on 5 July 2013. Pursuant to Section 487 of the Companies Act 2006, the auditor Deloitte LLP will continue in office.

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.

On behalf of the Board:



Robert Mulhall
Managing Director

10 March 2021

Directors' responsibility statement

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

The Directors are responsible for preparing the Annual Report and the 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 EU and Article 4 of the International Accounting Standard Regulation ('IAS') and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. 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, IAS 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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 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 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 websites. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of AIB UK Group 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 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 report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess AIB UK Group's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 10 March 2021 and is signed on its behalf by:



Robert Mulhall
Managing Director

10 March 2021

Independent Auditors' 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) plc (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 2020 and of the group's loss for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, which comprise:

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

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements 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 10 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

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

Independent Auditors' report to the Members of AIB Group (UK) p.l.c.

3. Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> – Loan loss provisioning; and – The appropriate measurement of the deferred tax asset. <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none"> ⓘ Newly identified ⬆ Increased level of risk ⬅ Similar level of risk ⬇ Decreased level of risk
Materiality	The materiality that we used for the group financial statements was £9.2m, 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 and was audited directly by the group engagement team.
Significant changes in our approach	There have been no significant changes in our audit approach in 2020, aside from the removal of the appropriate accounting for the pension scheme buy-in as a key audit matter, following the transaction's completion in 2019. Additionally as no significant deficiencies have been noted with regards to IT in the current year we have removed the key audit matter in relation to IT access management.

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:

- We obtained and read management's going concern assessment in order to understand the basis for key assumptions and judgements made by management;
- We considered management's financial projections and evaluated key assumptions and their projected impact on capital and liquidity, with specific consideration of the impact of the COVID-19 pandemic and implementation of the group's new strategy;
- With the involvement of Deloitte's regulatory specialists, we read the most recent ICAAP and ILAAP submissions, considered management's capital and liquidity projections, reviewed the results of management's severe but plausible stress scenarios and considered whether the mitigating actions that could be taken by management in a severe but plausible stress scenario were reasonable;
- We read correspondence with regulators to understand the group's capital and liquidity requirements;
- We assessed the historical accuracy of forecasts prepared by management; and
- We considered the adequacy 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.

Independent Auditors' report to the Members of AIB Group (UK) p.l.c.

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.

In 2019 we identified a key audit matter with regards to the appropriate accounting treatment for the pension scheme buy in. As this was a non-recurring transaction that completed in 2019, this has not been identified as a key audit matter for 2020. Additionally, in 2019, we identified a key audit matter with regards to IT user access. We did not identify any significant deficiencies in IT user access controls in our audit this year, therefore this has not been identified as a key audit matter for 2020.

5.1 Loan loss provisioning

Key audit matter description	<p>As detailed in the summary of critical accounting judgements and estimates in note 2 and the credit risk disclosures in note 20, 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 current economic environment the risk of the associated judgements and level of estimation uncertainty has increased in the current year. Therefore, we have determined that there is a risk of error in, or manipulation of, this balance.</p> <p>At 31 December 2020, the group reported £245m (2019: £89m) of ECL on total gross loans to customers of £7,102m (2019: £7,194m) resulting in an ECL coverage of 3.45% (2019: 1.23%). The most significant judgements in respect of the ECL include:</p> <ul style="list-style-type: none"> – the allocation of loans to customers to the appropriate stage in accordance with the requirements of IFRS 9, in particular the identification of significant increases in credit risk ("SICR") for the Corporate lending portfolio; – the valuation, existence and rights of collateral for Stage 1 and 2 Corporate exposures, specifically those which are individually material; – the estimation of expected future cash flows, including those from the sale of collateral, for Stage 3 exposures that have been individually assessed by the group; – the appropriateness of the relevant macroeconomic forecasts used by the group in its ECL models; and – the appropriateness and accuracy of post model adjustments recorded in relation COVID-19 specific factors that are not reflected in the modelled output and other known model limitations.
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Independent Auditors' report to the Members of AIB Group (UK) p.l.c.

How the scope of our audit responded to the key audit matter	<p>We obtained an understanding of the relevant controls over ECL including:</p> <ul style="list-style-type: none"> – controls that provide assurance over the identification of “criticised”, “vulnerable” and credit-impaired loans and the valuation of collateral used in the individually assessed provision calculations; and – the review and approval of model outputs and any post model adjustments that were subsequently applied to the modelled provision. <p>In addition, we performed the following substantive procedures in relation to the significant judgements:</p> <ul style="list-style-type: none"> – We assessed a sample of Stage 1 loans for indications of a SICR. The triggers that formed part of our review included those from internal group policies and the non-exhaustive factors as set out in IFRS 9; – For a sample of individually material loans, we assessed the existence and rights of the collateral held and assessed, with the involvement of Deloitte valuation specialists, 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, with the involvement of Deloitte valuation specialists, used in determining the ECL; – With the involvement of Deloitte’s economic specialists, we evaluated the appropriateness of the relevant macroeconomic forecasts used by comparing these to other third party forecasts; and – We considered and challenged the rationale for and estimation of post model adjustments in relation to COVID-19 specific factors, including revised economic forecasts following the announcement of a further lockdown in January 2021, and known model limitations. In addition to detailed testing of the post model adjustments, with the involvement of Deloitte’s Analytics and Modelling specialists, we performed a “stand back” test to assess the appropriateness of the total ECL after the application of post model adjustments.
Key observations	<p>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 balance is reasonable.</p>

Independent Auditors' report to the Members of AIB Group (UK) p.l.c.

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 26, management have recognised a deferred tax asset ("DTA") of £79m (2019: £87m), predominantly as a result of significant unutilised tax losses suffered between 2009 and 2012.

Given the inherent uncertainty in the accuracy of forecasting future results, particularly given increased economic uncertainty as a result of COVID-19 and profit forecasts being based on a new strategy which has not yet been implemented, 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 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 98 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 recent 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 the historical accuracy of management's forecasts in their detailed business plan by comparing historical forecasts to historical operating performance from 2015 onwards; and
- challenging the growth rate used by management to extrapolate profits beyond the forecasting period, with reference to growth rates from third party sources and historical performance.

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 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 more 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.

Independent Auditors' report to the Members of AIB Group (UK) p.l.c.

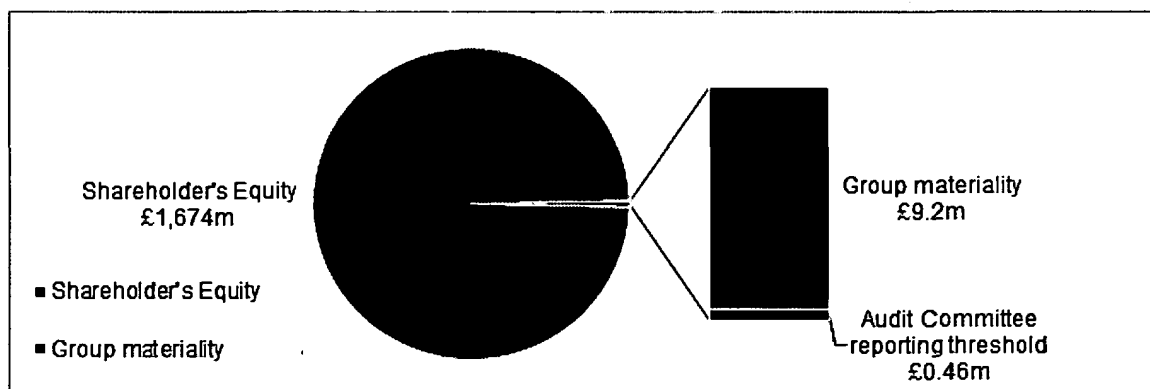
6. Our application of materiality

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	£9.2m (2019: £9.6m)	£9.1m (2019: £9.5m)
Basis for determining materiality	0.55% of Shareholders' Equity (2019: 0.55%)	3% of Shareholders' Equity (2019: 3%) The parent company materiality equates to 3% of Shareholders' Equity, which is capped at 99% of group materiality (2019: 99%).
Rationale for the benchmark applied	<p>We recognise that profit is an important measure in the financial statements. However, due to inconsistent profitability in recent years, and the group making a loss in the current financial year, we believe that the Shareholders' Equity balance currently remains a more appropriate benchmark as:</p> <ul style="list-style-type: none"> – it provides a stable basis for materiality; 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% (2019: 70%) of group materiality	65% (2019: 70%) of company materiality
Basis and rationale for determining performance materiality	<p>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 the nature, volume and size of misstatements in the previous audit. We also considered the impact of COVID-19 on our risk assessment, including the increased inherent operational risk of remote working.</p>	

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £460,000 (2019: £480,000), 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.

Independent Auditors' report to the Members of AIB Group (UK) p.l.c.

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:

- Cash on hand;
- Loans and advances to banks;
- Loans and advances to customers, excluding expected credit losses;
- Customer accounts; and
- Interest income and expense.

7.3 Working with other auditors

Where processes relevant to the group audit are performed centrally in Dublin by Allied Irish Banks plc (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 Directors' responsibility statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and 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.

Independent Auditors' report to the Members of AIB Group (UK) p.l.c.

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 Data Analytics and Credit Modelling 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 solvency and capital requirements.

Independent Auditors' report to the Members of AIB Group (UK) p.l.c.

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

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 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 Auditors' report to the Members of AIB Group (UK) p.l.c.

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 8 years, covering the years ending 31 December 2013 to 31 December 2020.

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,
10 March 2021

Consolidated income statement

for the year ended 31 December 2020

	Notes	2020 £m	2019* £m
Interest income	3	246	326
Interest expense	4	(31)	(77)
Net interest income		215	249
Fee and commission income	5	45	66
Fee and commission expense	5	(4)	(5)
Net trading and other financial (expense)/income	6	(1)	4
Net gain/(loss) on other financial assets measured at FVTPL	7	2	(1)
Other operating income	8	5	15
Other income		47	79
Total operating income		262	328
Administrative expenses	9	(163)	(133)
Impairment and amortisation of intangible assets	23	(14)	(7)
Impairment and depreciation of property, plant and equipment	24	(12)	(6)
Total operating expenses		(189)	(146)
Operating profit before impairment losses and provisions		73	182
Net credit impairment charge	11	(178)	(18)
Operating (loss)/profit before taxation		(105)	164
Income tax credit/(charge)	12	21	(58)
(Loss)/profit for the period after taxation attributable to equity holders of AIB UK		(84)	106

*Re-presented to show provisions for liabilities and commitments on the relevant expense line. In 2019, an expense of £1m was presented on a separate line 'Provisions for liabilities and commitments'.

All results are derived from continuing operations.

The notes on pages 66 to 152 form an integral part of these financial statements.

Statement of comprehensive income

for the year ended 31 December 2020

		AIB UK Group		AIB UK	
	Notes	2020 £m	2019 £m	2020 £m	2019 £m
(Loss)/profit for the year		(84)	106	(74)	107
Other comprehensive income - continuing operations					
Items that will not be reclassified subsequently to profit or loss:					
Net actuarial loss in retirement benefit schemes, net of tax	35	(25)	(185)	(25)	(185)
Total items that will not be reclassified subsequently to profit or loss		(25)	(185)	(25)	(185)
Items that will be reclassified subsequently to profit or loss when specific conditions are met:					
Net change in cash flow hedges, net of tax	35	20	13	20	13
Total items that will be reclassified subsequently to profit or loss when specific conditions are met		20	13	20	13
Other comprehensive income for the year, net of tax		(5)	(172)	(5)	(172)
Total comprehensive income for the year		(89)	(66)	(79)	(65)
Attributable to:					
- Equity holders of AIB UK		(89)	(66)	(79)	(65)

The notes on pages 66 to 152 form an integral part of these financial statements.

Statement of financial position

as at 31 December 2020

		AIB UK Group		AIB UK	
		2020	2019	2020	2019
	Notes	£m	£m	£m	£m
Assets					
Cash and balances at central banks		4,541	3,328	4,541	3,328
Items in course of collection		4	5	4	5
Derivative financial instruments	15	181	122	181	122
Loans and advances to banks	16	583	726	583	725
Loans and advances to customers	17	6,857	7,105	6,857	7,107
Investment securities	21	34	32	34	32
Investments in group undertakings	22	—	—	1	1
Intangible assets	23	25	34	25	34
Property, plant and equipment	24	39	45	39	45
Other assets	25	15	17	14	17
Current taxation		32	—	32	—
Deferred tax assets	26	53	61	53	61
Prepayments and accrued income		4	6	4	6
Retirement benefit assets	27	142	171	142	171
Total assets		12,510	11,652	12,510	11,654
Liabilities					
Deposits by banks	28	410	539	410	539
Customer accounts	29	9,979	8,893	9,991	8,921
Derivative financial instruments	15	142	108	142	108
Lease liabilities	30	18	25	18	25
Current taxation	12	—	11	—	11
Deferred tax liabilities	26	15	15	15	15
Other liabilities	31	171	222	171	219
Accruals and deferred income		7	11	7	11
Provisions for liabilities and commitments	32	49	20	47	17
Secondary non-preferential debt	33	45	45	45	45
Total liabilities		10,836	9,889	10,846	9,911
Shareholders' equity					
Share capital	34	2,384	2,384	2,384	2,384
Reserves		35	15	34	14
Retained earnings		(745)	(636)	(754)	(655)
Total shareholders' equity		1,674	1,763	1,664	1,743
Total liabilities and equity		12,510	11,652	12,510	11,654

The Company reported a loss for the financial year ended 31 December 2020 of £74m (2019: profit of £107m).

The notes on pages 66 to 152 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 10 March 2021. 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 2020

		Attributable to equity holders of AIB UK				
		Share capital	Other reserves	Cash flow hedging reserve	Retained earnings	Total equity
AIB UK Group	Notes	£m	£m	£m	£m	£m
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	35	—	—	20	(25)	(5)
Total comprehensive income for the year		—	—	20	(109)	(89)
At 31 December 2020		2,384	2	33	(745)	1,674

At 1 January 2019		2,384	2	—	(557)	1,829
Total comprehensive income for the year						
Profit for the year		—	—	—	106	106
Other comprehensive income, net of tax	35	—	—	13	(185)	(172)
Total comprehensive income for the year		—	—	13	(79)	(66)
At 31 December 2019		2,384	2	13	(636)	1,763

		Attributable to equity holders of AIB UK				
		Share capital	Other reserves	Cash flow hedging reserve	Retained earnings	Total equity
AIB UK	Notes	£m	£m	£m	£m	£m
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	35	—	—	20	(25)	(5)
Total comprehensive income for the year		—	—	20	(99)	(79)
At 31 December 2020		2,384	1	33	(754)	1,664

At 1 January 2019		2,384	1	—	(577)	1,808
Total comprehensive income for the year						
Profit for the year		—	—	—	107	107
Other comprehensive income, net of tax	35	—	—	13	(185)	(172)
Total comprehensive income for the year		—	—	13	(78)	(65)
At 31 December 2019		2,384	1	13	(655)	1,743

The notes on pages 66 to 152 form an integral part of these financial statements.

Statement of cash flows

for the year ended 31 December 2020

	Notes	AIB UK Group		AIB UK	
		2020	2019	2020	2019
		£m	£m	£m	£m
Cash flows from operating activities					
(Loss)/profit before taxation		(105)	164	(95)	165
Adjustments for:					
Non-cash items	40	226	20	214	20
Net cash inflow from operating activities		121	184	119	185
Net decrease in loans and advances to banks		76	98	76	98
Net decrease/(increase) in loans and advances to customers		77	(399)	77	(399)
Net decrease in deposits by banks		(116)	(31)	(116)	(23)
Net increase in customer accounts	29	1,086	15	1,070	13
Net decrease in derivative financial instruments	15	(3)	(6)	(3)	(6)
Net decrease in items in course of collection		1	7	1	7
Net decrease in notes in circulation	31	(51)	(99)	(51)	(99)
Net decrease in other assets		8	71	10	71
Net decrease in other liabilities		(5)	(53)	(1)	(55)
Net cash inflow/(outflow) from operating assets and liabilities		1,073	(397)	1,063	(393)
Net cash inflow/(outflow) from operating activities before taxation		1,194	(213)	1,182	(208)
Taxation paid		(17)	(26)	(17)	(25)
Net cash inflow/(outflow) from operating activities		1,177	(239)	1,165	(233)
Cash flows from investing activities					
Additions to property and equipment		(10)	(2)	(10)	(8)
Additions to intangible assets		(5)	(7)	(5)	(7)
Dividends received from subsidiary undertakings	22	—	—	12	—
Net cash outflow from investing activities		(15)	(9)	(3)	(15)
Cash flows from financing activities					
Net proceeds - secondary non-preferential debt	33	—	45	—	45
Repayment of lease liabilities		(3)	(5)	(3)	(5)
Net cash (outflow)/inflow from financing activities		(3)	40	(3)	40
Increase/(decrease) in cash and cash equivalents		1,159	(208)	1,159	(208)
Opening cash and cash equivalents		3,503	3,711	3,503	3,711
Closing cash and cash equivalents	40	4,662	3,503	4,662	3,503

The notes on pages 66 to 152 form an integral part of these financial statements.

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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) plc (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 2020 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 10 March 2021.

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 AIB UK Group (see note 45). AIB Group plc is registered in the Republic of Ireland (registered number 594283) with its headquarters and registered office at 10 Molesworth Street, Dublin 2, Republic of Ireland. Telephone +353(0) 16600311. Reference made to 'the Parent Group' 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 EU and applicable for the year ended 31 December 2020. 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 cash flows, the company statement of cash flows, the consolidated statement of changes in equity and the company statement of changes in equity 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 involves making estimates concerning the likelihood of future events, the actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an 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 made in applying the significant accounting policies that have the most 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 asset; retirement benefit obligations and the fair value of investment securities.

A description of these judgements and estimates is set out in note 2: Critical accounting judgements and estimates on page 87.

Notes to the financial statements

Going concern

The financial statements for the year ended 31 December 2020 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, capital, liquidity, performance and support from AIB Group.

A wide range of information relating to present and future conditions has been considered included business and financial plans covering the period 2021 to 2023 approved by the Board in November 2020 which reflect the new AIB UK strategy, 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 and Brexit, which could materially affect AIB UK Group's future business performance and profitability and which are outlined on pages 31 to 36. The impact of COVID-19 and the continued uncertainty on 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 23. AIB UK Group's liquidity is outlined on page 24 and the Directors are satisfied with the capital and liquidity position of AIB UK Group.

AIB Group continue to support AIB UK operationally, through an outsourced arrangement, and AIB Group confirmed in November 2020 that AIB UK is a strategic priority for AIB Group. 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 2020, AIB UK Group adopted the following amendments to standards and interpretations which had an insignificant impact on these annual financial statements:

- Amendments to IFRS 3 *Business Combinations* (definition of a business);
- Amendments to References to the Conceptual Framework in IFRS Standards; and
- Amendments to IFRS 16 *Leases* COVID-19 Related Rent Concessions.

1.4 Basis of consolidation

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

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

Subsidiary undertakings

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

AIB UK reassesses whether it controls a subsidiary when facts and circumstances indicate that there are changes to one or more elements of control. See note 22: Investments in group undertakings for the list of subsidiaries within AIB UK Group.

Notes to the financial statements

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 liability 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 method.

Effective interest rate

The effective interest 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 net carrying amount of the financial asset or 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, 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 points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

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

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 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.

Notes to the financial statements

Amortised cost and gross carrying amount

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

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

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. 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, 'point in time' recognition, or 'over time' recognition if the performance obligation is performed over a period of time unless the income has been included in the effective interest rate calculation.

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.

Notes to the financial statements

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.

Notes to the financial statements

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 sufficient taxable profits will be available to allow all of the asset to be recovered.

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

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

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

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

In addition, temporary differences are not provided for assets and liabilities the initial recognition of which, in a transaction that is not a business combination, affects neither accounting nor taxable profit.

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

1.12 Financial assets

Recognition and initial measurement

AIB UK Group initially recognises financial assets, excluding loan assets, on the trade date, being the date on which AIB UK Group commits to purchase the assets. Loan assets are recognised when cash is advanced to borrowers.

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.

Notes to the financial statements

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.

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') (solely payments of principal and interest) 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 SPPI 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.

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:

– 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.

Notes to the financial statements

– Amortised cost

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

– Fair value through other comprehensive income

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.

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.

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 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.

Notes to the financial statements

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.

This policy is applied to all of AIB UK Group's contracts that meet the definition of a lease.

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. Asset restoration obligations are capitalised as part of the cost of the right-of-use asset and depreciated over the asset's estimated useful life on a straight-line basis.

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 re-measurement 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. When determining the relevant time period to calculate depreciation, AIB UK Group uses the lease term as determined in the initial recognition calculation.

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.

Notes to the financial statements

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; reducing the carrying amount to reflect lease payments made; and re-measuring the carrying amount to reflect any reassessment or lease modifications.

The lease liability is measured at amortised cost using the effective interest 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 modify the initially recognised components of the lease contract.

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 in the context of the right-of-use asset being leased, not the actual underlying asset. AIB UK Group concluded that there are no subleases in existence that require classification as finance leases under IFRS 16.

1.15 Determination of fair value of financial instruments

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

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

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

Notes to the financial statements

Subsequent to initial recognition, the methods used to determine the fair value of financial instruments include quoted prices in active markets where those prices are considered to represent actual and regularly occurring market transactions. Where quoted prices are not available or are unreliable because of market inactivity, fair values are determined using valuation techniques. These valuation techniques maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The valuation techniques used incorporate the factors that market participants would take into account in pricing a transaction.

Valuation techniques include the use of recent orderly transactions between market participants, reference to other similar instruments, option pricing models, discounted cash flow ('DCF') analysis and other valuation techniques commonly used by market participants.

Quoted prices in active markets

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

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

Notes to the financial statements

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 in the statement of financial position. The difference between the sale and repurchase price is accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

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

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

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

Derivatives

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

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

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

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

Hedging

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

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

Notes to the financial statements

AIB UK Group discontinues hedge accounting when:

- it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
- the derivative expires, or is sold, terminated, or exercised;
- the hedged item matures or is sold or repaid; or
- 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 method. For available for sale financial assets, the fair value adjustment for hedged items is recognised in the income statement using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash flow hedge accounting

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

Notes to the financial statements

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.

1.19 Impairment of financial assets

AIB UK Group recognises loss allowances for 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 risk 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.

Notes to the financial statements

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 a 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 but requires a modification gain or loss to be taken to profit or loss immediately.

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

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

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

Notes to the financial statements

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.

Notes to the financial statements

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 which are not measured at FVTPL. The origination date for such contracts is the date when the contracts become irrevocable. The credit risk at this date is used to determine if a significant increase in credit risk has subsequently occurred.

The ECL allowance calculated on financial guarantees and loan commitment contracts is reported within '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. When determining the relevant time period to calculate depreciation, AIB UK Group uses the lease term as determined in the initial recognition calculation.

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.

Notes to the financial statements

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. Impairment losses on goodwill are not reversed.

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.

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 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 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 present obligations where the transfer of economic benefit is uncertain or cannot be reliably estimated. Contingent liabilities are not recognised but are disclosed in the notes to the financial statements unless the possibility of the transfer of economic benefit is remote.

A provision is recognised for a constructive obligation where a past event has led to an obligating event. This obligating event has left the 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.

Notes to the financial statements

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.

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 Parent 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.

Notes to the financial statements

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.

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

In August 2020, the IASB issued Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (IBOR reform Phase 2), to address the accounting issues which arise upon the replacement of an IBOR with a risk-free rate (RFR).

IBOR reform Phase 2 includes a number of reliefs that apply upon the transition of a financial instrument from an IBOR to a RFR.

The amendments introduce a practical expedient to account for a change to the basis for determination of the contractual cash flows at the date on which interest rate benchmarks are altered or replaced. Under the practical expedient, AIB UK Group is required to account for a change in the basis for determining contractual cash flows by revising the effective interest rate. This practical expedient only applies when the change is a direct consequence of IBOR reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

The amendments further introduce reliefs from existing hedge accounting requirements. IBOR reform Phase 2 amendments provide temporary reliefs that will allow AIB UK Group's hedging relationships to continue when changes to hedged items and hedging instruments arise as a result of changes required by the reform. The reliefs required by the Phase 2 amendments are as follows:

- AIB UK Group will amend the formal designations of a hedging relationship to reflect the changes that are required by the reform. This includes designating an alternative benchmark rate as the hedged risk, changing the description of the hedged item and/or the hedging instrument and amending the method for assessing hedge effectiveness. The updates to hedging documentation to reflect changes that are required as a direct consequence of IBOR reform do not result in the discontinuation of hedge accounting.
- The amount accumulated in the cash flow hedge reserve at the date that the description of the hedged item is amended is deemed to be based on the alternative benchmark interest rate on which the hedged future cash flows are determined.
- For the retrospective assessment of hedge effectiveness, AIB UK Group may elect on a hedge by hedge basis to reset the cumulative fair value change to zero.
- If AIB UK Group reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it can designate the rate as a non-contractually specified risk component even if it is not separately identifiable at the designation date. This is applied on a rate-by-rate basis.
- When a group of items is designated as a hedged item and an item in the group is amended to reflect the changes that are required by the IBOR reform, AIB UK Group will allocate the hedged items to sub groups based on the benchmark rate being hedged, and designate the benchmark rate for each sub-group as the hedged risk.

Disclosure requirements are added. The disclosures relate to how the transition to alternative rates is managed, the progress on the transition and the risks arising from financial assets and financial liabilities due to the reform.

AIB UK Group will apply IBOR reform Phase 2 from 1 January 2021.

Effective date: Annual reporting periods beginning on or after 1 January 2021.

IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018 - 2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when it applies the 10% test in assessing whether to derecognise a financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

AIB UK Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it will first apply the amendment and does not expect this will result in a significant impact on its financial statements.

Effective date: Annual reporting periods beginning on or after 1 January 2022.

Other

The IASB has published a number of other minor amendments to IFRSs through both standalone amendments and through the Annual Improvements to IFRS Standards 2018 - 2020 cycle. None of the other amendments are expected to have a significant impact on reported results or disclosures.

Notes to the financial statements

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 2020 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, particularly in relation to Brexit uncertainty;
- Determining the requirement, and the appropriate methodology, for any post-model adjustments including quantifying the impacts of COVID-19; and
- Stratifying financial assets into groups with similar risk characteristics.

Given the current political and economic uncertainties within the UK due to the COVID-19 pandemic and Brexit, management has considered the potential impact of a further downturn in the UK economy and believe it is reasonable to apply a post-model adjustment. See, below, and Note 20(a) for further details.

Estimates are involved in the inputs into the ECL calculation including DCFs; collateral valuations, time to realisation of collateral. Estimates are also involved in determining the amount of post-model adjustments, particularly those relating to COVID-19.

Due to the unprecedented and fast-moving nature of the pandemic, determining how and when the macroeconomic environment will return to historically observed norms is particularly challenging meaning that there is inherently more estimation uncertainty in developing methodologies to calculate COVID-19 PMAs versus other adjustments.

The sensitivity of the ECL allowance to changes in the macroeconomic scenarios used in the calculation are set out in note 20(b) and 20(c).

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

Recoverability of deferred tax asset

AIB UK Group's accounting policy for deferred tax is set out in note 1.11 and details of AIB UK Group's deferred tax assets and liabilities are set out in note 26.

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

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

Estimates of the level of future profitability are made in determining the amount of deferred tax asset on unutilised losses to recognise at the reporting date. This includes estimating the impact of economic conditions including, for 2020, the COVID-19 pandemic and Brexit, on future profitability.

The factors considered by management in making these judgements and assumptions for the estimates are disclosed in note 26 together with a sensitivity analysis of the deferred tax asset to a change in the future tax rate and the estimate of future profitability.

Notes to the financial statements

Retirement benefit obligations

AIB UK Group's accounting policy for retirement benefit plans is set out in note 1.10 and details of the key assumptions and the valuation of the AIB Group (UK) Pension Scheme (the 'UK Scheme'), at 31 December 2020 are set out in note 27.

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

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 27 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 includes a plan to restructure the business, was approved by the Board in November 2020.

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 the internal communications were sufficient to raise 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 2020 (see note 32).

Fair value of investment securities

The fair value of the investment securities (note 21) has been identified as a source of estimation uncertainty at 31 December 2020 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 are estimated by applying a revenue multiplier to the income of the underlying trading entity. As there is no recently available market data for a directly comparable instrument, the revenue multiplier has been estimated to be within a range of 3 to 5 and assumed to be 3.5 for the year end valuation of £34m. Applying a revenue multiplier of 3 and a 5% reduction in the estimated income would reduce the fair value by £7m to £27m. Applying a revenue multiplier of 5, with no change to the estimated income, would increase the fair value of the investment by £14m to £48m. These sensitivities are included in the level 3 measurements table within note 38 on page 144.

Notes to the financial statements

3. Interest income

	2020 £m	2019 £m
Interest on loans and advances to banks at amortised cost	22	69
Interest on loans and advances to customers at amortised cost	219	251
Interest income calculated using the effective interest method	241	320
Interest from finance leasing and hire purchase contracts	5	6
Total interest income	246	326

4. Interest expense

	2020 £m	2019 £m
Interest on deposits by banks	11	49
Interest on customer accounts	18	27
Interest on secondary non-preferential debt	1	—
Interest on lease liabilities (note 30)	1	1
Interest expense calculated using the effective interest method	31	77

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

5. Net fee and commission income

	2020 £m	2019 £m
Retail banking customer fees	15	21
Credit related fees	11	15
Foreign exchange fees	8	9
Service charge ⁽¹⁾	3	10
Credit card commission	3	4
Other fees and commission	5	7
Fee and commission income	45	66
Fee and commission expense	(4)	(5)
	41	61

⁽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 (expense)/income

	2020 £m	2019 £m
Interest rate contracts	(1)	4
	(1)	4

Notes to the financial statements

7. Net gain/(loss) on other financial assets measured at FVTPL

	2020 £m	2019 £m
Investment securities - equity	2	(1)
	2	(1)

8. Other operating income

	2020 £m	2019 £m
Dividend income on equity investments measured at FVTPL	—	8
Profit on disposal of loans and advances to customers	3	4
Miscellaneous other operating income	2	3
	5	15

9. Administrative expenses

	2020 £m	2019* £m
Wages and salaries	52	52
Social security costs	6	6
Termination benefits ⁽¹⁾	21	4
Pension costs		
- Defined contribution plans (note 27)	9	9
- Defined benefit plans (note 27)	(1)	(10)
Other personnel expenses	14	15
Personnel expenses	101	76
General and administrative expenses⁽²⁾	62	57
Administrative expenses	163	133

*Re-presented to show provisions for liabilities and commitments on the relevant expense line. In 2019, a charge of £3m for customer redress was included in 'Provisions for liabilities and commitments' in the income statement.

⁽¹⁾For the year ended 31 December 2020, a charge of £21m (2019: £4m) was made to the income statement in respect of termination benefits arising from the voluntary severance programme in operation in AIB Group. £19m of the charge at 31 December 2020 (2019: £nil) relates to the restructuring provision, explained in note 32(b).

⁽²⁾Includes a charge of £6m (2019: £nil) relating to the restructuring provision (note 32(b)); £5m (2019: £3m) charge for customer redress and other provisions for liabilities (note 32); £1m (2019: £nil) in respect of the FSCS levy; and operating lease rentals of £1m (2019: £1m).

The average number of employees of AIB UK Group and AIB UK during the year was 975 (2019: 1,000).

Notes to the financial statements

10. Auditor's remuneration

Auditor's remuneration is included within other administrative expenses in the income statement. The charges included in 2020 and 2019, shown below exclusive of Value Added Tax (VAT), are both for audit services in relation to the current year and settlement of amounts relating to services provided in prior years not previously accrued. The fees were payable by AIB UK Group to the principal auditor, Deloitte LLP.

	2020 £'000	2019 £'000
Audit fees for statutory audit ⁽¹⁾	557	582
Other assurance services (including regulatory compliance work) ⁽²⁾	61	52
Audit of pension schemes associated with AIB UK Group	42	58
	660	692

⁽¹⁾The audit of subsidiaries is included within the statutory audit fee. Additional audit fees of £12k were charged in 2020 in relation to the 2019 audit (2019: £182k in relation to the 2018 audit).

⁽²⁾Other assurance services includes Bank of England Assurance Reporting and CASS Client Money Report. Due to their nature these services are usually performed by the external auditor. Additional fees of £3k were charged in 2020 in relation to 2019 services (2019: £nil in relation to 2018 services).

11. Net credit impairment charge

The following table analyses the income statement net credit impairment charge on financial instruments for the years ended 31 December 2020 and 2019.

	2020 Measured at amortised cost £m	2019* Measured at amortised cost £m
Credit impairment charge on financial instruments		
Net re-measurement of ECL allowance:		
Loans and advances to customers	(178)	(23)
Loan commitments (note 32)	(4)	2
Credit impairment charge before recoveries	(182)	(21)
Recoveries of amounts written-off in previous years	4	3
Net credit impairment charge	(178)	(18)

*Re-presented to show provisions for liabilities and commitments on the relevant expense line. In 2019, a net re-measurement of ECL allowance of £2m on loan commitments was included in 'Provisions for liabilities and commitments' in the income statement.

Notes to the financial statements

12. Income tax charge from continuing operations

	2020 £m	2019 £m
Corporation tax		
UK corporation tax on profits for the period	25	(27)
Adjustments in respect of prior periods	1	—
Current tax	26	(27)
Deferred taxation		
Origination and reversal of temporary differences	3	(4)
Change in deferred tax on losses of previous not recognised losses:		
- Current period	(8)	(27)
Deferred tax (note 26)	(5)	(31)
Total tax credit/(charge) for the year	21	(58)

The tax credit for the period is a higher credit (2019: higher charge) than the 2020 standard average rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

	2020 £m	2019 £m
Corporation tax credit/(charge) at standard average rate	20	(31)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	3	3
Exempted income, income at reduced rates and tax credits	—	2
Income taxed at bank surcharge rate	10	(8)
Deferred tax asset write down	(24)	(22)
Change in tax rate	10	—
Other differences	1	(2)
Adjustments to tax charge in respect of prior years	1	—
Tax credit/(charge)	21	(58)

At 31 December 2020 the current taxation balance of AIB UK Group was an asset of £32m (2019: £11m liability) and of AIB UK was an asset of £32m (2019: £11m liability).

13. Dividends on equity shares

No dividends were paid during 2020 or 2019.

14. Transfer of financial assets

Continuing involvement in derecognised financial assets

Transfers to 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).

Notes to the financial statements

15. Derivative financial instruments

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

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

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

Gains and losses from changes in the fair value of derivatives that do not qualify for hedge accounting, together with the ineffective portion of qualifying hedging derivatives, are reported in 'Net gain/(loss) on other financial assets measured at FVTPL'.

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 2020 is set out in note 35.

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

AIB UK Group uses the same credit control and risk management policies in undertaking all off-balance sheet commitments as it does for on balance sheet lending including counterparty credit approval, limit setting and monitoring procedures. In addition, derivative instruments are subject to the market risk policy and control framework as described in the Risk management section.

	2020				2019			
	< 1 year	1 < 5 years	5 years+	Total	< 1 year	1 < 5 years	5 years+	Total
Residual maturity	£m	£m	£m	£m	£m	£m	£m	£m
Notional principal amount	4,231	2,803	2,576	9,610	4,255	2,248	2,228	8,731
Positive fair value	6	38	137	181	8	18	96	122

Notes to the financial statements

The concentration of exposures of AIB Group UK, in respect of notional principal amounts of £9,610m (2019: £8,731m) and positive fair value of interest rate, exchange rate, equity and credit derivative contracts of £181m (2019: £122m), 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 2020 and 2019:

	2020			2019		
	Notional Principal amount £m	Fair Values Assets £m	Liabilities £m	Notional Principal amount £m	Fair Values Assets £m	Liabilities £m
Derivatives held for trading						
Interest rate derivatives - OTC						
Interest rate swaps	2,691	119	(127)	2,357	89	(94)
Interest rate options bought and sold	629	1	—	528	—	—
Total interest rate derivatives	3,320	120	(127)	2,885	89	(94)
Foreign exchange derivatives - OTC						
Foreign exchange contracts	364	4	(4)	410	6	(6)
Total foreign exchange derivatives	364	4	(4)	410	6	(6)
Total derivatives held for trading	3,684	124	(131)	3,295	95	(100)
Derivatives held for hedging						
Derivatives designated as cash flow hedges - OTC						
Interest rate swaps	5,926	57	(11)	5,436	27	(8)
Total derivatives held for hedging	5,926	57	(11)	5,436	27	(8)
Total derivative financial instruments	9,610	181	(142)	8,731	122	(108)

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				
	2020				
	Within 1 Year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	More than 5 years £m	Total £m
Forecast receivable cash flows	1	—	2	7	10
Forecast payable cash flows	—	1	1	—	2

	AIB UK Group & AIB UK				
	2019				
	Within 1 Year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	More than 5 years £m	Total £m
Forecast receivable cash flows	17	9	21	16	63
Forecast payable cash flows	8	3	4	1	16

Notes to the financial statements

For AIB UK Group, the ineffectiveness reflected in the income statement that arose from cash flow hedges is £nil (2019: £nil). The total amount recognised in other comprehensive income net of tax in respect of cash flow hedges was a credit of £20m (2019: credit £13m).

Netting financial assets and financial liabilities

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

16. Loans and advances to banks

	AIB UK Group		AIB UK	
	2020	2019	2020	2019
	£m	£m	£m	£m
At amortised cost				
Funds placed with central banks	339	398	339	398
Funds placed with other banks	244	328	244	327
Loss allowance (note 19)	—	—	—	—
Total loans and advances to banks	583	726	583	725
Amounts include:				
Due from AIB plc and fellow subsidiaries	140	255	140	254
External rating:				
AA/AA-	397	430	397	430
A-/A	46	40	46	40
BB+/BBB+/BBB-	140	256	140	255
	583	726	583	725

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 2020 (2019: £nil) in respect of government securities. No collateral (2019: £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 2020 and 2019. An insignificant ECL was held on the intercompany loans at 31 December 2020 and 2019.

17. Loans and advances to customers

	AIB UK Group		AIB UK	
	2020	2019	2020	2019
	£m	£m	£m	£m
At amortised cost				
Loans and advances to customers	6,964	7,033	6,964	7,035
Amounts receivable under finance leases and hire purchase contracts (note 18)	138	161	138	161
	7,102	7,194	7,102	7,196
Loss allowance (note 19)	(245)	(89)	(245)	(89)
Total loans and advances to customers	6,857	7,105	6,857	7,107
Amounts include:				
Due from AIB plc and fellow subsidiaries	—	—	—	2

Notes to the financial statements

Amounts due from AIB plc and fellow subsidiaries were assessed for an ECL at 31 December 2019. It was determined that the ECL on the intercompany loans at 31 December 2019 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 20: Credit risk disclosures.

18. Amounts receivable under finance leases and hire purchase contracts

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

	AIB UK Group & AIB UK	
	2020	2019
	£m	£m
Gross receivables		
Not later than 1 year	56	63
Later than 1 year and not later than 2 years	40	48
Later than 2 year and not later than 3 years	25	30
Later than 3 year and not later than 4 years	14	15
Later than 4 year and not later than 5 years	6	8
Later than 5 years	1	1
Total gross receivables	142	165
Unearned future finance income	(4)	(4)
Present value of minimum payments	138	161
ECL allowance for uncollectible minimum payments receivable⁽¹⁾	1	1

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

19. Loss allowance on financial assets

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

	AIB UK Group & AIB UK	
	2020	2019
	£m	£m
At 1 January	89	118
Net remeasurement of loss allowance - customers (note 11)	178	23
Changes in loss allowance due to write-offs	(17)	(40)
Changes in loss allowance due to derecognition	(5)	(12)
At 31 December	245	89
Amounts include loss allowance on:		
Loans and advances to banks measured at amortised cost	—	—
Loans and advances to customers measured at amortised cost	245	89
	245	89

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 20: Credit risk disclosures.

Notes to the financial statements

20. Credit risk disclosures

Credit risk management objectives are to:

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

Credit risk management response to COVID-19

AIB UK Group has adapted 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, and particularly for those sectors believed to be most impacted by COVID-19. In adapting its credit operating model, AIB UK Group has also enabled the introduction and implementation of a number of customer support measures in a streamlined, agile and risk appropriate manner.

AIB UK Group's focus continues to be on supporting its existing customers and ensuring they are provided with the appropriate measures taking account of the current and expected financial impact and recovery outlook. As part of AIB UK Group's credit risk management response to COVID-19, a range of actions have been taken to ensure the appropriate measurement, classification, and reporting of its credit risk exposures during this time. These include:

- The development of a suite 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 exposures and the more vulnerable segments of the balance sheet.

COVID-19 continues to have a negative impact on the economy and AIB UK Group's loan book and asset quality.

(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*. This model requires a more 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 IFRS 9 as the weighted average of credit losses across multiple macroeconomic scenarios, with a probability weighting applied to each scenario, 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 IFRS 9, there are two measurement bases:

1. 12-month ECL (Stage 1), which applies to all financial instruments from initial recognition as long as there has been no significant increase in credit risk; 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.

Notes to the financial statements

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.

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 due to 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 more than 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 under regular 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 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.

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

Notes to the financial statements

Where credit obligations are no longer triggering SICR criteria, and any applicable probationary periods have been completed, the account can exit Stage 2 and return to Stage 1.

Stage 3 characteristics

Defaulted obligations (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 obligor 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 credit obligor to be unlikely to pay his/her credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount; or
- The credit obligor is 90 days or more past due on any material credit obligation (day count starts when any material amount of principal, interest or fee has not been paid by a credit obligor at the date it was due); or
- The credit obligor was previously defaulted but remains forborne and is materially 30 days or more past due.

Events that would result in AIB UK Group deeming a credit obligor 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 credit obligation for a retail credit obligor or related to the credit obligations for a non-retail credit obligor. AIB UK Group's definition of financial distress and forbearance are aligned to the definitions included in the Parent Group's Forbearance policy. Identification of non-performing exposures and unlikelihood 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 ('DCF's):** 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 \geq £500,000. It is AIB UK Group policy that the base case DCF represents the best estimate of loss for certain credit impaired exposures, taking account of forward looking information, economic conditions, multiple workout strategies and case specific attributes. AIB UK Group incorporates forward looking information in the assessment of individual borrowers through the credit assessment process. The DCF assessment produces a base case ECL, and the impact of macroeconomic scenarios are applied as a PMA (see page 101).
- 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.

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

Lease receivables and trade receivables

For lease receivables, 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 108, 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 costs expected to be incurred in the recovery process. If an account returns to performing from default (absent any loss making concession) or if the discounted post-default recoveries are equal to or greater than the exposure, the realised loss is zero.

The LGD modelling approach depends on whether the facility has underlying security and, if so, the nature of that security. The following sets out the 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 model parameters are built and calibrated on data obtained from the historical experience of the group. However, the unprecedented severity and speed at which the COVID-19 pandemic impacted the UK economy has meant that the past is no longer considered reflective of future events. As a result, the modelled ECL output has been unable to fully incorporate the extent to which the pandemic has affected AIB UK Group's customers and the associated ECL, therefore, requiring a PMA.

Furthermore, PMAs have been applied to capture other risks that have not been included within the ECL model. For example, to reflect the potential sale of a non-performing Primary Dwelling House ('PDH') mortgage portfolio, and other Stage 3 issues.

Approach to COVID-19 PMA

The PMAs were calculated taking into account a range of adjustments to reflect the impact of government support, payment deferrals, sector-specific analysis and the worsening economic environment up to and including the fourth quarter of 2020.

Subsequent to calculating and applying the PMA, post year-end AIB UK Group identified that a further adjustment was required for its base case macroeconomic scenario projections used in the PMA calculation, due to the additional lockdown requirements announced by the UK Government in early January 2021.

A quantitative and qualitative assessment has been carried out to review the adequacy of ECL charges given the delay in economic recovery caused by these increased restrictions. AIB UK Group has quantitatively assessed the impact of the restrictions on the base scenario, and determined that the 2021 GDP growth projection in the base scenario forecast disclosed on page 103 could reduce by c. 3.5%, and unemployment projections for 2022 and 2023 could increase by 0.5% and 0.3% respectively. These short term impacts are assessed to reverse over the medium term due to the improved vaccine outlook. The impact of this additional PMA was to increase ECL by £13m, and is included within the total PMA amount split out below of £89m.

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PMA detail

The ECL allowance at 31 December 2020 therefore includes the following management adjustments, primarily required as a result of the impact of COVID-19:

Non-property business Stage 1 and 2 PMA

For the Non-property business portfolio, PMAs were required to reflect increased levels of PDs and LGDs above the modelled outcomes for Stage 1 and 2 exposures, to incorporate the deferred impact of lockdown restrictions due to COVID-19 on impacted sectors. This was somewhat offset by the insulation effect for customers in receipt of government backed loan schemes.

In total, this results in an increase in ECL of £67m to Non-property business Stage 1 and 2 ECLs, including £13m to reflect the impact of increased COVID-19 related restrictions announced in early 2021. The total Stage 1 and Stage 2 loan balance for Non-property business at the reporting date was £4,528m.

Residential mortgages Stage 1 and 2 PMA

For Residential mortgages, the extent to which payment deferral support requests may influence the PD was considered and cases with active payment deferrals are given an elevated default rate for a single quarter when they return to regular payments. Loss rates assigned to these cases are also increased. This resulted in an increase in ECL of £4m in Stage 1 and Stage 2 ECL. The total Stage 1 and Stage 2 loan balances for Personal Mortgages at the reporting date was £979m.

Stage 3 PMAs

A PMA to the residential mortgages portfolio has been applied at the reporting date to reflect the potential sale of a non-performing PDH mortgage portfolio and the impact of potential solutions on ECL. This PMA resulted in an increase in ECL of £9m to Stage 3 ECLs.

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 total, PMAs of £18m were applied to total Stage 3 loans of £465m (includes off balance sheet commitments)

The total effect of all PMAs is to increase ECLs by £89m. This compares to a management overlay of £15m at December 2019 which was required to reflect the view that the modelled outcome did not adequately quantify the potential impact of a severe downturn in the UK economy at that time. This is now incorporated in the current PMA of £89m.

The below table shows the modelled ECL for each business area as well as the post-PMA ECL:

Sector	Modelled ECL				PMA				Total ECL*			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Residential mortgages	1	1	9	11	3	1	9	13	4	2	18	24
Other personal	—	—	2	2	—	—	—	—	—	—	2	2
Property and construction	7	7	24	38	—	—	1	1	7	7	25	39
Non-property business	16	43	56	115	19	48	8	75	35	91	64	190
Total	24	51	91	166	22	49	18	89	46	100	109	255

*Includes ECL on off-balance sheet commitments of £10m.

Write-offs

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

Debt forgiveness may subsequently arise where there is a formal contract with the customer for the write-off of the loan. In addition, certain forbearance solutions and restructuring agreements may include an element of debt write down (debt forgiveness). Details of forbearance are set out on pages 115 to 118.

Notes to the financial statements

The contractual amount outstanding of loans written-off during the year that are still subject to enforcement activity is outlined on page 115 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 onset of the COVID-19 pandemic and associated lockdown measures and restrictions on economic activity means that the scenarios in use for year-end 2020 have changed materially from those applied for the year-end 2019 outcomes. To reflect the range of possible outcomes as well as the significant uncertainty presented by the public health crisis and associated economic downturn, as at the reporting date, 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 and two downside scenarios). The inclusion of an extra downside scenario (i.e. an extended high unemployment scenario) was deemed necessary to ensure that the range of possible outcomes in relation to the ultimate recovery from the pandemic are captured. 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') provide the scenario forecasts over five years. The base case is benchmarked against the outlook available from official sources (e.g. BoE, 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.

After the year-end, AIB UK Group identified that an additional adjustment of £13m was required as a result of the increased COVID-19 related restrictions announced in early 2021, as the extent of the restrictions have been much greater than those reflected in the approved macroeconomic scenarios used for the modelled ECL outcome at year-end.

Base case: The scenario assumes that further outbreaks of the virus occur in 2021 with associated public health containment measures but that the rate of infection declines over time reflecting advancements in treatments and better track and trace systems. It also assumes that a vaccine does not become widely available in 2021.

GDP growth is expected to recover strongly in 2021 and 2022 following declines in 2020. Growth returns to longer term trends from 2023 and beyond. In this scenario, economic activity returns to pre-pandemic levels of activity by early 2023 in the UK.

The rise in unemployment has been mitigated by temporary government support schemes and it is expected that unemployment will rise in 2021 as government supports are removed. In this scenario, unemployment remains relatively high over the coming years, remaining above the 2019 rate out to 2025.

House prices have been more robust than expected throughout 2020. This is due to a combination of effects, including reduced supply, the effect of the stamp duty holiday in England and Northern Ireland (which is due to end in March 2021) while reduced incomes as a result of public health restrictions haven't materially reduced demand. House prices are still expected to fall in 2021 by c. 3%. This fall is much lower than would generally be associated with similar unemployment rates, demonstrating the unique impact of the virus on the economy. In this scenario further falls in commercial property prices are expected in 2021 before a rebound from 2022 onwards.

This scenario incorporates the EU/UK trade deal that has been implemented on 1 January 2021. This mitigates many of the effects that would have been felt in the event of a no trade deal outcome. This scenario does reflect the increased non-tariff barriers that are in place as a result of the UK exiting the transition period on 31 December 2020.

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Downside 1 ('Lower growth in 2021'): This scenario reflects limited recovery in GDP growth in 2021 as a result of the significant impacts of 2020. In this scenario, the virus is more severe than expected in 2021, resulting in extensive containment that remains in place for a longer period of time than assumed in the base case. This holds back economic growth in 2021, and consequentially the additional scarring effects result in growth being c. 3.5% lower, versus the base case over 2021-2025. In this scenario, economic activity does not return to pre-pandemic levels of activity until 2025.

As a result of this further scarring, unemployment is higher than the base case by 2 percentage points in 2021, and remains higher over the period to 2025.

The recovery in house prices is slower than in the base case, with house prices being c. 5% lower in 2025 than in the base case.

Downside 2 ('Extended high unemployment'): This scenario reflects unemployment recovering very slowly to just below 10% in 2025. This is caused by very sluggish return to growth following a much more persistent outbreak of the virus than expected in the base case. This stops growth in 2021 and slows down the recovery significantly, with cumulative growth over 2021-2025 being c. 10% lower than in the base case.

The implications for unemployment are very significant in this scenario, affecting sectors that have not been directly impacted from COVID-19 due to scarring effects in the wider economy. Unemployment peaks at 10.5% in 2023 and only slowly reduces to below 10% in 2025, c. 5 percentage points higher than the base case.

House prices suffer large falls in 2021 to 2023 with prices only picking up slowly from 2024. Under this scenario, house prices are c. 28% lower in 2025 than under the base case.

Upside ('Quick economic recovery'): This scenario reflects a much quicker economic recovery than outlined in the base case. The key trigger for this are advances in therapeutic measures against the virus, including a rapid and successful roll out of a vaccine. While unemployment remains elevated relative to pre-COVID-19 levels in the short term, by 2024 it has returned to less than 4%.

Under this scenario, house prices also return more quickly as demand continues to be robust. By 2025 house prices are c. 9% higher than in the base case.

After the reporting date, due to the increased spread of the COVID-19 virus, the UK Government announced further lockdown requirements which came into effect in early January 2021. AIB UK Group therefore identified that an additional adjustment was required for the impact of these increased restrictions. This adjustment took into account the impacts on GDP and unemployment, which are reflected in the year-end ECLs and associated sensitivity analysis in section (c), but have not been taken into account in the scenarios above.

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 2020 (average over 2021-2025) and at 31 December 2019 (average over 2020-2024).

After the year-end, AIB UK Group identified that an additional adjustment was required for the impact of increased COVID-19 related restrictions announced in early 2021. Due to the increased spread of the COVID-19 virus, the UK Government announced further lockdown requirements which came into effect in early January 2021. This adjustment took into account the impacts on GDP and unemployment, which are reflected in the year-end ECLs, but have not been taken into account in the scenarios below.

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 2020. The adjustment to the base case macroeconomic scenario projections due to the impact of further COVID-19 related restrictions announced in early 2021 is not reflected within the factors on the table below.

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Macroeconomic factor (%)	2020			
	5 year (2021-2025) average forecast			
	Base	Downside (‘Lower growth in 2021’)	Downside (‘Extended high unemployment’)	Upside
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

Macroeconomic factor (%)	2019			
	5 year average forecast			
	Base	Downside (‘disorderly Brexit’)	Downside (‘global slowdown’)	Upside
United Kingdom				
GDP growth	1.5	0.6	0.3	2.4
Residential property price growth	3.3	0.3	(2.6)	5.3
Unemployment rate	3.6	6.1	7.1	3.3
Commercial property price growth	2.6	(1.5)	(3.8)	5.9

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 2020. This is because, due to the increased variability as a result of COVID-19, the average for the five years 2021-2025 above does not provide sufficient insight for each factor across the impacted years. As above, the adjustment to the base case macroeconomic scenario projections due to the impact of further COVID-19 related restrictions announced in early 2021 is not reflected within the factors on the table below.

Macroeconomic factor (%)	Estimate	Base					Downside 1				
	2020	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
GDP growth	(10.0)	6.5	3.0	2.0	1.7	1.5	2.5	3.5	2.0	1.8	1.6
Residential property price growth	5.0	(3.0)	1.5	2.5	3.0	2.5	(7.0)	(1.0)	3.5	3.5	3.0
Unemployment rate	4.8	7.0	6.0	5.3	5.0	4.8	9.0	7.0	6.5	6.0	5.7
Commercial property price growth	(12.0)	(3.0)	5.0	3.0	3.0	3.0	(9.0)	3.0	5.0	4.0	3.0

Macroeconomic factor (%)	Downside 2					Upside				
	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
GDP growth	(0.5)	1.5	1.4	1.6	1.6	8.0	4.2	2.8	2.0	1.7
Residential property price growth	(15.0)	(9.0)	(6.0)	4.0	4.0	2.5	3.5	3.0	3.0	2.5
Unemployment rate	10.0	10.3	10.5	10.2	9.7	6.0	5.0	4.3	3.9	3.7
Commercial property price growth	(16.0)	(8.0)	(4.0)	4.0	4.5	3.0	4.0	3.0	3.0	2.5

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 was not foreseen at the previous reporting period (31 December 2019). The severe and sudden shock to all economies has resulted in a significant re-assessment of the forecasts.

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.

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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 reflecting the continued inability of many countries to bring the virus under control, the potential for new mutations of the virus and the unknown medium and longer term economic impacts of the virus. Additionally, other risks remain which also support AIB UK Group's view that risks remain to the downside. These include the impacts of ongoing de-globalisation efforts, geopolitical risks and the timing of unwinding of central bank supports.
- The weightings also consider the development of multiple successful vaccines and the beginning of the roll-out in some economies prior to the year-end. This provides concrete evidence that restrictions may begin to be released more fully in 2021 than originally expected and allow economic activity to bounce back more sharply. Additionally, the continued growth in house prices and the possible productivity gains from digital transformation provide support to the upside view.
- Although there is a greater weighting to the upside (and therefore a lower weighting to downside) in the 2020 macroeconomic scenarios, the severity of the base and two downside scenarios in 2020 mean that the overall economic outlook represented by the weighted probability ECL calculation is significantly more adverse when compared to the 2019 scenarios, and the outlook inferred by weightings being skewed to the upside.

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

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

Scenario	Weighting 31 December 2020	Scenario	Weighting 31 December 2019
Base	50 %	Base	50 %
Downside 1 ('Lower growth in 2021')	25 %	Downside ('disorderly Brexit')	25 %
Downside 2 ('Extended high unemployment')	5 %	Downside ('global slowdown')	15 %
Upside ('Quick economic recovery')	20 %	Upside	10 %

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

(c) Sensitivities

AIB UK Group's estimates of expected credit losses are responsive to varying economic conditions and forward looking information. These estimates are driven by the relationship between historic experienced loss and the combination of forward looking macroeconomic variables. Given the co-relationship of each of the macroeconomic variables to one another and the fact that loss estimates do not follow a linear path, a sensitivity to any single economic variable is not meaningful. As such, the following sensitivities 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 2020 and 2019 with the sensitivity based on application of 100% weighting to each of the economic scenarios. The scenarios below include the adjustment required as a result of the increased COVID-19 related restrictions announced in early 2021:

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	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

	2019				
	Reported	100% Base	100% downside (‘disorderly’ Brexit)	100% downside (‘global slowdown’)	100% upside
Loans and advances to customers	£m	£m	£m	£m	£m
Residential mortgages	14	14	15	16	13
Other personal	3	3	3	3	3
Property and construction	21	20	22	24	20
Non-property business	51	48	54	59	48
Total	89	85	94	102	84
Off-balance sheet loan commitments	4	3	4	4	3
Financial guarantee contracts	2	2	2	2	2
	95	90	100	108	89

(d) Maximum credit risk exposure

The maximum credit risk exposure of AIB UK Group at 31 December 2020, 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.

	2020	2019
	£m	£m
Statement of financial position		
Balances at central banks at amortised cost ⁽¹⁾	4,458	3,251
Items in the course of collection	4	5
Derivative financial instruments at FVTPL	181	122
Loans and advances to banks	583	726
Loans and advances to customers	6,857	7,105
Prepayments and accrued income	4	6
Other assets	15	17
	12,102	11,232
Total off-balance sheet items	2,233	1,991
Maximum exposure to credit risk	14,335	13,223

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

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(e) 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 29.

The use of internal credit rating models is fundamental in assessing the credit quality of loan exposures, with variants of these used for the calculation of regulatory capital. 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 borrowing 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 appropriated 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 a probability of default less than 6%, are not in arrears and there are no indications they are unlikely to pay.
Criticised	<p>Accounts of lower quality and considered as less than satisfactory are referred to as criticised and include the following:</p> <p>Criticised watch: The credit is exhibiting weakness and is deteriorating in terms of credit quality and may need additional management attention;</p> <p>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.</p>
Non-performing/default	<p>Accounts that are considered as non-performing or defaulted.</p> <p>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:</p> <ul style="list-style-type: none"> - Where AIB UK Group considers a credit obligor to be unlikely to pay his/her credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount; or - The credit obligor is 90 days or more past due on any material credit obligation (date count starts when any material amount of principal, interest or fee has not been paid by a credit obligor at the date it was due); or - Loans that have, as a result of financial distress (as defined within the Parent Group's Definition of Default 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.

A profile of loans and advances to customers in total and by stage is set out below.

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

Amortised cost

				2019
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
Total strong/satisfactory	6,354	406	—	6,760
Criticised Watch	64	136	—	200
Criticised Recovery	—	35	—	35
Total criticised	64	171	—	235
Non-performing	—	—	199	199
Gross carrying amount	6,418	577	199	7,194
ECL allowance	(24)	(24)	(41)	(89)
Carrying amount	6,394	553	158	7,105

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(f) 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 11, 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 2020 the most significant concentration of exposures were to the property and construction sector, which made up 21% (2019: 22%) of loans and advances to customers, other services, 20% (2019: 21%), distribution, 19% (2019: 17%) and residential mortgages, 14% (2019: 15%) 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 2020 and 2019:

Concentration by sector	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
	£m	£m	£m	£m	£m	£m	£m
Non-property business:							
Agriculture	93	14	107	94	13	—	107
Distribution	1,328	145	1,473	721	619	133	1,473
Other services	1,400	538	1,938	1,689	174	75	1,938
Other:							
Energy	943	272	1,215	1,144	41	30	1,215
Financial	98	126	224	217	2	5	224
Manufacturing	290	154	444	304	105	35	444
Transport	376	109	485	350	119	16	485
	1,707	661	2,368	2,015	267	86	2,368
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

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2019

	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	87	13	100	81	18	1	100
Distribution	1,234	212	1,446	1,257	178	11	1,446
Other services	1,512	406	1,918	1,768	130	20	1,918
Other:							
Energy	737	159	896	895	1	—	896
Financial	191	91	282	275	6	1	282
Manufacturing	306	129	435	338	63	34	435
Transport	367	108	475	451	3	21	475
	1,601	487	2,088	1,959	73	56	2,088
Property and construction	1,585	722	2,307	2,110	169	28	2,307
Residential mortgages	1,070	8	1,078	931	54	93	1,078
Other personal	105	143	248	226	18	4	248
	7,194	1,991	9,185	8,332	640	213	9,185

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 2020 and 2019. The aged analysis of the contractually past due loans at 31 December 2020 have been prepared under the EBA DPD counter which reflects changes to materiality threshold and count methodology. The comparable analysis for 31 December 2019 was prepared under the Basel DPD counter.

At amortised cost

2020

Industry sector	1-30 days	31-60 days	61-90 days	91 + days	Total
	£m	£m	£m	£m	£m
Non-property business:					
Agriculture	1	—	—	—	1
Distribution	45	22	12	27	106
Other services	3	1	5	10	19
Other:					
Financial	1	—	—	—	1
Manufacturing	—	6	—	5	11
	1	6	—	5	12
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
	61	37	22	96	216
As a percentage of total gross loans	%	%	%	%	%
	0.9	0.5	0.3	1.4	3.1

Notes to the financial statements

At amortised cost

	2019				
	1-30 days	31-60 days	61-90 days	91 + days	Total
Industry sector	£m	£m	£m	£m	£m
Non-property business:					
Agriculture	2	—	1	—	3
Distribution	10	—	—	4	14
Other services	5	—	—	8	13
Other:					
Financial	—	—	—	1	1
Manufacturing	2	—	2	5	9
	2	—	2	6	10
Property and construction	11	8	—	14	33
Residential mortgages	6	7	5	43	61
Other personal	2	—	—	2	4
Total gross carrying amount	38	15	8	77	138
Asset quality					
Stage 1	22	1	1	—	24
Stage 2	11	9	1	—	21
Stage 3	5	5	6	77	93
	38	15	8	77	138
As a percentage of total gross loans	%	%	%	%	%
	0.5	0.2	0.1	1.1	1.9

To fully align to EBA guidelines on default, DPD materiality thresholds and DPD day count conventions, the aged analysis of the contractually past due loans at 31 December 2020 have been prepared under the EBA DPD counter which was implemented in the second quarter of 2020. The comparable analysis for 31 December 2019 was prepared under the Basel DPD counter. The new EBA DPD counter reflects changes to materiality threshold and count methodology.

Notes to the financial statements

(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 2020 and 31 December 2020 and the corresponding movements between 1 January 2019 and 31 December 2019.

Accounts that triggered movements between Stage 1 and Stage 2 as a result of failing/curing a quantitative measure only (as disclosed on page 98) and that subsequently reverted within the period to their original stage, are excluded from 'Transferred from Stage 1 to Stage 2' and 'Transferred from Stage 2 to Stage 1'. AIB UK Group believes this presentation aids the understanding of the underlying credit migration.

Gross carrying amount movements

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 table differs from the movements table reported in the Financial Review on page 22.

⁽¹⁾Includes loans renegotiated.

⁽²⁾Includes the net movement on revolving credit facilities.

AIB UK Group				
2019				
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
At 1 January	6,098	528	214	6,840
Transferred from Stage 1 to Stage 2	(691)	691	—	—
Transferred from Stage 2 to Stage 1	291	(291)	—	—
Transferred to Stage 3	(35)	(113)	148	—
Transferred from Stage 3	26	33	(59)	—
New loans originated/top-ups	2,081	—	—	2,081
Redemptions/repayments	(1,639)	(219)	(44)	(1,902)
Interest applied	211	18	7	236
Write-offs	—	—	(40)	(40)
Derecognised due to disposals	—	—	(30)	(30)
Exchange translation adjustments	(3)	(1)	—	(4)
Other movements	79	(69)	3	13
At 31 December	6,418	577	199	7,194

Notes to the financial statements

ECL allowance movements

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.

AIB UK Group & AIB UK				
	2019			
	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m
At 1 January	22	31	65	118
Transferred from Stage 1 to Stage 2	(5)	25	—	20
Transferred from Stage 2 to Stage 1	3	(19)	—	(16)
Transferred to Stage 3	—	(9)	28	19
Transferred from Stage 3	—	2	(13)	(11)
Net re-measurement	(5)	2	10	7
New loans originated/top-ups	7	—	—	7
Redemptions/repayments	(2)	(7)	—	(9)
Impact of model and overlay changes	6	—	3	9
Impact of credit or economic risk parameters	(2)	(1)	—	(3)
Income statement credit impairment charge	2	(7)	28	23
Write-offs	—	—	(40)	(40)
Derecognised due to disposals	—	—	(12)	(12)
At 31 December	24	24	41	89

Notes to the financial statements

(h) 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 facility, the term of the facility and the amount of exposure. Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities and treasury products are generally unsecured, with the exception of asset backed securities, which are secured by a portfolio of financial assets.

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

The gross carrying value of loans and advances to customers and the nominal value of off-balance sheet credit commitments and financial guarantee contracts which are credit impaired and for which AIB UK Group has not recognised a loss allowance because of the effects of collateral held is £nil (2019: £45.1m).

The contractual amount outstanding of loans written-off during the year that are subject to enforcement activity amounted to £3.7m (2019: £2.5m) which includes both full and partial write-offs. Total cumulative non-contracted loans written-off at 31 December 2020 amounted to £10m (2019: £26m).

(i) Repossessions

The number (stock) of repossessions of residential mortgages at 31 December 2020 is 12 (2019: 26), the balance outstanding is £1.2m (2019: £2.9m).

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.

(j) 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 credit obligations 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 short term measures (such as interest only and capital and interest moratorium) and long term measures (such as term extension, debt consolidation, and collateral disposal).

Notes to the financial statements

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 its Retail FSG team. In exceptional cases only, the period of forbearance may be extended beyond the originally agreed forbearance term.

Notes to the financial statements

The following table sets out the risk profile of forborne loans and advances to customers at amortised cost:

	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.

Notes to the financial statements

	2019			
	Forborne loans and advances to customers at amortised cost			
	Residential mortgages	Other personal	Property and construction	Non-property business
	£m	£m	£m	£m
Analysed by forbearance type				
Temporary forbearance	19	—	4	5
Permanent forbearance	17	3	12	20
Total	36	3	16	25
				80
Analysed by internal credit ratings				
Strong/satisfactory:				
Total	—	—	—	—
Criticised:				
Stage 2	4	2	11	19
Total	4	2	11	19
				36
Non-performing:				
Stage 3	32	1	5	6
Total	32	1	5	6
				44
Gross carrying amount of forborne loans and advances to customers at amortised cost	36	3	16	25
				80
ECL allowance	(5)	—	(2)	(1)
				(8)
Carrying amount of forborne loans and advances to customers at amortised cost	31	3	14	24
				72

⁽¹⁾Of which: interest only £10m, reduced payment £8m, payment moratorium £10m.

⁽²⁾Of which: arrears capitalisation £10m, term extension £33m, restructure £4m.

(k) Credit ratings of contingent liabilities and commitments

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

	2020	2019
	£m	£m
Strong	1,551	1,566
Satisfactory	615	380
Criticised watch	27	30
Criticised Recovery	2	1
Default	37	14
	2,233	1,991

Notes to the financial statements

21. Investment securities

	AIB UK Group & AIB UK	
	2020	2019
	£m	£m
Equity securities		
Equity shares - unlisted measured at FVTPL	34	32
Total equity securities	34	32
Total investment securities	34	32

The sensitivity of the valuation of investment securities to using reasonably possible alternative assumptions in the fair value calculation at 31 December 2020 and 2019 is set out in note 38: Fair value of financial instruments.

22. Investments in group undertakings

	AIB UK	
	2020	2019
	£m	£m
At 1 January	1.3	0.3
Reversal of impairment in subsidiaries	—	1.0
At 31 December	1.3	1.3

The subsidiary undertakings at 31 December 2020:

Subsidiary name	Year end	Registered	Nature of business
First Trust Financial Services Limited	31 December	Northern Ireland	Financial services
First Trust Financial Planning Limited	31 December	Northern Ireland	Financial services
Aberco Limited	31 December	Northern Ireland	Property investment
AIB Joint Ventures Limited	31 December	England and Wales	Investment
First Trust Leasing No.4 (Northern Ireland) Limited	31 December	Northern Ireland	Leasing
AIB Pensions UK Limited	31 December	England and Wales	Dormant company

AIB UK holds 100% of the ordinary shares of the companies listed, with the exception of AIB Pensions UK Limited, in which it holds 70% of the ordinary shares.

AIB Pensions UK Limited has availed of the exemption from audit under section 480 of the Companies Act 2006.

As at 31 December 2020, AIB UK Group held no investments in associated undertakings (2019: 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 2020, a dividend of £6.7m was received from Aberco Limited and £5.7m from AIB Joint Ventures Limited (2019: £nil).

Impairment of subsidiary undertakings

There was no impairment charged on the investments in subsidiaries in 2020. In 2019, £1m of the previous impairment provision on the investment in First Trust Financial Services Limited was reversed and an additional impairment charge of £0.03m was required on the investment in First Trust Financial Planning Limited.

Notes to the financial statements

23. Intangible assets

AIB UK Group & AIB UK				
	2020			
	Software externally purchased	Software internally generated	Software under construction	Total
	£m	£m	£m	£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 ⁽¹⁾	—	5	—	5
At 31 December	2	26	—	28
Carrying value at 31 December	—	24	1	25

⁽¹⁾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.

AIB UK Group & AIB UK				
	2019*			
	Software externally purchased	Software internally generated	Software under construction	Total
	£m	£m	£m	£m
Cost				
At 1 January	2	16	24	42
Additions	—	3	4	7
Disposal	—	(1)	—	(1)
Transfers in/(out)	—	22	(22)	—
At 31 December	2	40	6	48
Amortisation/impairment				
At 1 January	2	6	—	8
Amortisation for the year	—	6	—	6
Disposal	—	(1)	—	(1)
Impairment for the year ⁽¹⁾	—	1	—	1
At 31 December	2	12	—	14
Carrying value at 31 December	—	28	6	34

*Re-presented following a review of the intangible assets register. In 2019, a 'Cost' at 31 December of £39m and 'Amortisation/impairment' at 31 December of £11m was reported for 'Software internally generated'. The carrying value at 31 December 2019 is unchanged.

⁽¹⁾Included in 'Impairment and amortisation of intangible assets' in the income statement.

Notes to the financial statements

The additions and transfers in 2019 in internally generated software relate to the movement to live asset of the UK IFRS9/IRB Model programme, UK Image Clearing System, OneUK and Open Banking programmes completed throughout 2019. Software under construction additions related to the FCA High-cost of credit review and a number of regulatory and sustainment systems projects.

All intangible assets at 31 December 2020 and 2019 have finite useful lives.

24. Property, plant and equipment

AIB UK Group and AIB UK							
							2020
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	10	1	8	1	15	30	65
Additions	5	—	1	1	3	—	10
Re-measurements	—	—	—	—	—	(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 net book value of property occupied by AIB UK Group for its own activities at 31 December 2020 was £17m (2019: £14m). There were no branch properties sold during 2020 (2019: nil).

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.

The accounting policy on the impairment of property, plant and equipment can be found in note 1.24.

Notes to the financial statements

AIB UK Group							
							2019
	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 31 December 2018	17	3	14	2	27	—	63
Impact of adopting IFRS 16	—	—	—	—	—	29	29
At 1 January 2019	17	3	14	2	27	29	92
Transfers in/(out)	1	—	—	(1)	—	—	—
Additions	—	—	1	—	—	1	2
Amounts written-off	(8)	(2)	(7)	—	(12)	—	(29)
At 31 December	10	1	8	1	15	30	65
Depreciation and impairment							
At 31 December 2018	10	2	9	—	22	—	43
Impact of adopting IFRS 16	—	—	—	—	—	—	—
At 1 January 2019	10	2	9	—	22	—	43
Depreciation charge for the year	—	—	1	—	1	4	6
Amounts written-off	(8)	(2)	(7)	—	(12)	—	(29)
At 31 December	2	—	3	—	11	4	20
Carrying value at 31 December	8	1	5	1	4	26	45

Notes to the financial statements

	AIB UK						
	2019						
	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 31 December 2018	8	2	13	2	26	—	51
Impact of adopting IFRS 16	—	—	—	—	—	29	29
At 1 January 2019	8	2	13	2	26	29	80
Transfers in/(out)	1	—	—	(1)	—	—	—
Additions	6	—	1	—	—	1	8
Amounts written-off	(5)	(1)	(6)	—	(11)	—	(23)
At 31 December	10	1	8	1	15	30	65
Depreciation and impairment							
At 31 December 2018	5	1	8	—	23	—	37
Impact of adopting IFRS 16	—	—	—	—	—	—	—
At 1 January 2019	5	1	8	—	23	—	37
Depreciation charge for the year	—	—	1	—	1	4	6
Amounts written-off	(3)	(1)	(6)	—	(13)	—	(23)
At 31 December	2	—	3	—	11	4	20
Carrying value at 31 December	8	1	5	1	4	26	45

A freehold property in NI, owned by subsidiary company Aberco Limited, with a fair value and carrying value of £6m was transferred to AIB UK for £6m in 2019.

Future capital expenditure

Future capital expenditure relates to both property, plant and equipment and intangible assets. There is £0.2m (2019: £11m) estimated outstanding commitments for capital expenditure not provided for in the financial statements.

Capital expenditure authorised but not yet contracted for is £nil (2019: £1m).

Leased Assets

Property leases

AIB UK Group leases property for its offices and retail branch outlets. The property lease portfolio consists of 23 leases, made up of 1 head office location and 22 branch outlets, spread across the UK. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Both the head office property and retail branch lease terms are typically for a period of 10 to 20 years. 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 likewise, 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 re-measured resulting in a reduction of £4m in the liability (see note 30) and a £4m reduction in the cost of the related ROU assets. In addition, the ROU assets were impaired by £3m and property and equipment by a further £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.

Notes to the financial statements

Lease liabilities

A maturity analysis of lease liabilities is shown in note 30.

25. Other assets

	AIB UK Group		AIB UK	
	2020	2019	2020	2019
	£m	£m	£m	£m
Items in transit	9	8	9	8
Other debtors	6	9	5	9
	15	17	14	17

26. Deferred taxation

	AIB UK Group & AIB UK	
	2020	2019
	£m	£m
Deferred tax assets		
Unutilised tax losses	79	87
Other	9	6
Total gross deferred tax assets	88	93
Deferred tax liabilities		
Retirement benefits	(38)	(43)
Cash flow hedges	(12)	(4)
Total gross deferred tax liabilities	(50)	(47)
Net deferred tax assets	38	46
Represented on the statement of financial position:		
Deferred tax assets	53	61
Deferred tax liabilities	(15)	(15)

Analysis of movements in deferred taxation

	2020	2019
	£m	£m
At 1 January	46	20
Deferred tax through other comprehensive income	(3)	57
Income statement - continuing operations (note 12)	(5)	(31)
At 31 December	38	46

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 27% (2019: 25%), except for deferred tax on pre 2015 unutilised tax losses which is recognised at the relevant tax rate each year. A reduction in the UK corporation tax rate to 17% with effect from 1 April 2020 was cancelled in March 2020 and a corporation tax rate of 19%, effective from 1 April 2020, was substantively enacted. The deferred tax asset at 31 December 2020 has been calculated based on an aggregation of a rate of 19% 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 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, which were one-off events that are not expected to recur;
- AIB UK Group has launched a revised strategy and reorganised structure to focus on delivery;
- the Business Plan for AIB UK Group for the period 2021 to 2023, which was approved by the Board in November 2020;
- continued financial support from the Parent; 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;
- the difficulty of accurately predicting future revenues;
- the absolute level of the deferred tax asset compared to the level of equity and the quantum of profits required to utilise the asset; and
- uncertainty around the impact of the COVID-19 pandemic and Brexit on the UK, Irish and global economies and the continued low interest rate environment and weakness in the UK economy.

The Board has considered all these factors and have 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 and is appropriately supported by forecast taxable profits, taking into account AIB UK Group's long-term financial and strategic plans. As a result, an amount of £482m (2019: £407m) of deferred tax assets relating to unutilised tax losses has not been recognised in the financial statements.

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 tax rate: The tax rate assumption reflects a rate of 19%, being the enacted rate. If the tax rate was increased by 1%, throughout the 15 year period of recognition, the deferred tax asset balance at 31 December 2020 would increase by £4m to £83m.
- Change in profit growth assumption: 2% growth in profits has been assumed for 2024 and 2025 and 0% growth thereafter. If this assumption was changed to 5% growth for 2024 and 2025, 2% growth for 2026 and 2027 and 0% growth thereafter, while maintaining a 15 year restriction and other base assumptions, the deferred tax asset balance at 31 December 2020 would increase by £6m to £85m.
- No growth in profit beyond the 3 year plan: If the profit growth assumption was changed to 0% growth from 2024, while maintaining a 15 year restriction and other base assumptions, the deferred tax asset balance at 31 December 2020 would decrease by £3m to £76m.
- 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 98 years from 31 December 2020. 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 2020 by £29m.

The deferred tax asset due after more than one year is £79m (2019: £83m).

Notes to the financial statements

27. 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 then 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 (PHI) in respect of these members.

The cost of the defined contribution scheme for 2020 was £9m (2019: £9m) and is included in Administrative expenses (note 9).

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 2020 is 19 years (2019: 18 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 would include financial assumptions, such as discount rates and inflation, and demographic assumptions on life expectancy.

AIB UK significantly reduced its exposure to risks from the UK Scheme through new funding arrangements that were put in place in December 2019.

(c) Valuations

Independent actuarial valuations of the defined benefit scheme are carried out on a triennial basis by Mercer Limited, Actuaries and Consultants. The most recent valuation was carried out as at 31 December 2017 and was approved in May 2019. The funding plan from the 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. The purchase of the PBI policy 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 were 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

As a result of the purchase of the insurance policies, a new funding plan was agreed in December 2019 which 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 will be 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 (2019: £10m in December 2019) 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 (2019: £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 (2019: £nil) 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 (GMP) equalisation.

(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 2020 £14m (2019: £32m) 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 2020 and 2019.

	2020			2019		
	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	(886)	1,057	171	(840)	1,248	408
Included in income statement						
Interest (cost)/income	(18)	22	4	(23)	35	12
Administration expenses	—	(2)	(2)	—	(2)	(2)
Past service costs	(1)	—	(1)	—	—	—
	(19)	20	1	(23)	33	10
Included in other comprehensive income						
<i>Remeasurements gain (loss):</i>						
- Actuarial gain/(loss) arising from:						
- Experience adjustments	14	—	14	—	—	—
- Changes in demographic assumptions	2	—	2	1	—	1
- Changes in financial assumptions	(124)	—	(124)	(82)	—	(82)
- Return on scheme assets excluding SLP	—	76	76	—	(135)	(135)
- Contribution of asset from SLP to scheme assets	—	31	31	—	27	27
- Return on SLP assets	—	(29)	(29)	—	(58)	(58)
	(108)	78	(30)	(81)	(166)	(247)
Other						
Benefits paid	42	(42)	—	58	(58)	—
At 31 December	(971)	1,113	142	(886)	1,057	171

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.

	2020		2019	
	Value	Plan assets	Value	Plan assets
	£m	%	£m	%
Pensioner buy-in	709	64	653	62
Assured payment policy	277	25	247	23
Bonds	—	—	2	—
Cash	9	1	11	1
SLP assets	118	10	144	14
Fair value of scheme assets at 31 December	1,113	100	1,057	100
Actuarial value of liability	(971)		(886)	
Surplus in scheme	142		171	
Related deferred tax liability (note 26)	(38)		(43)	
Net pension asset	104		128	

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 2020 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 27% (2019: 25%) being the expected corporation tax rate of 19% 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 2020 was £24m (2019: £27m).

(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	2020	2019
	%	%
Rate of increase of pensions in payment	2.9	2.9
Discount rate	1.4	2.1
Inflation assumptions		
- Retail Price Index (RPI)	2.9	2.9
- Consumer Price Index (CPI)	2.3	2.1

The discount rate used to value the liability, is set by reference to high quality AA corporate bond yields, in accordance with IAS 19.

Notes to the financial statements

(l) Demographic assumptions

The mortality tables used for 2020 and 2019 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 2020 and 2019 are as set out below.

Life expectancy from age 63	Retiring today at age 63		Retiring at age 63, currently aged 53	
	2020	2019	2020	2019
Male	25.0	25.0	25.4	25.4
Female	26.8	26.7	27.7	27.7

(m) Sensitivity of assumptions

Defined benefit obligation

The following table shows the sensitivity of the defined benefit obligation valuation of £971m at 31 December 2020 to changes in the key financial and demographic assumptions. The changes in assumptions have been considered independently of each other.

Assumption	Increase/(decrease) in defined benefit obligation of £971m	
	if increase in assumption	if decrease in assumption
	£m	£m
Discount rate (0.25% movement)	(44)	48
Inflation (0.25% movement)	45	(41)
Mortality (1 year movement)	43	(41)

Assured payment policy

The following table shows the sensitivity of the APP valuation of £277m at 31 December 2020 to changes in the discount rate.

Assumption	Increase/(decrease) in APP valuation of £277m	
	if increase in assumption	if decrease in assumption
	£m	£m
Discount rate (0.25% movement)	(18)	18

SLP assets

The following table shows the sensitivity of the SLP assets valuation of £118m at 31 December 2020 to changes in the discount rate.

Assumption	Increase/(decrease) in SLP valuation of £118m	
	if increase in assumption	if decrease in assumption
	£m	£m
Discount rate (0.25% movement)	(1)	1

Notes to the financial statements

28. Deposits by banks

	AIB UK Group & AIB UK	
	2020	2019
	£m	£m
Other borrowings from banks	410	539
Amounts include:		
Due to AIB plc and fellow subsidiaries	156	285

At 31 December 2020 and 31 December 2019, 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.

29. Customer accounts

	AIB UK Group		AIB UK	
	2020	2019	2020	2019
	£m	£m	£m	£m
Current accounts	6,943	5,853	6,943	5,853
Demand deposits	1,665	1,540	1,677	1,568
Time deposits	1,371	1,500	1,371	1,500
	9,979	8,893	9,991	8,921
Amounts include:				
Due to AIB plc and fellow subsidiaries	39	57	51	85

30. Lease liabilities

	AIB UK Group & AIB UK	
	2020	2019
	£m	£m
At 31 December	18	25
Maturity analysis - contractual undiscounted cash flows:		
Not later than one year	4	5
Later than one year and not later than five years	12	16
Later than five years	4	8
Total undiscounted lease liabilities at end of year	21	29

Notes to the financial statements

Analysis of movements in lease liabilities

	2020 £m	2019 £m
At 1 January	25	30
Lease payments ⁽¹⁾	(4)	(6)
Interest expense ⁽¹⁾	1	1
Re-measurement	(4)	—
At 31 December	18	25

⁽¹⁾Repayment of lease liabilities amount to £3m (2019: £5m), i.e. lease payments net of interest expense.

The re-measurement in 2020 of £4m (2019: £nil) relates to leases for properties that AIB UK is exiting as part of the restructuring of the business.

31. Other liabilities

	AIB UK Group		AIB UK	
	2020 £m	2019 £m	2020 £m	2019 £m
Notes in circulation	130	181	130	181
Items in transit	1	10	1	9
VAT payable	1	1	1	—
Other creditors	39	30	39	29
	171	222	171	219

Notes to the financial statements

32. Provisions for liabilities and commitments

AIB UK Group						
2020						
	Customer redress	Restructuring	Litigation	Onerous contracts	Property dilapidations	ECLs on off-balance sheet items
	£m	£m	£m	£m	£m	£m
	(a)	(b)	(c)	(d)	(e)	(f)
At 1 January 2020	7	—	5	1	1	6
Amounts charged/(released) to the income statement ⁽¹⁾	4	25	1	—	—	4
Provisions utilised	(4)	—	(1)	—	—	—
At 31 December 2020	7	25	5	1	1	10

AIB UK Group						
2019						
	Customer redress	Litigation	Onerous contracts	Property dilapidations	ECLs on off-balance sheet items	Total
	£m	£m	£m	£m	£m	£m
	(a)	(c)	(d)	(e)	(f)	
At 31 December 2018	7	6	3	—	8	24
Impact of adopting IFRS 16 at 1 January 2019 ⁽¹⁾	—	—	(1)	1	—	—
Restated balance at 1 January 2019	7	6	2	1	8	24
Amounts charged/(released) to the income statement ⁽¹⁾	4	—	(1)	—	(2)	1
Provisions utilised	(4)	(1)	—	—	—	(5)
At 31 December 2019	7	5	1	1	6	20

⁽¹⁾Included in note 9: Administrative expenses, other than 'ECLs on off-balance sheet items' which are included in 'Net credit impairment charge' (note 11).

AIB UK						
2020						
	Customer redress	Restructuring	Litigation	Onerous contracts	Property dilapidations	ECLs on off-balance sheet items
	£m	£m	£m	£m	£m	£m
	(a)	(b)	(c)	(d)	(e)	(f)
At 1 January 2020	5	—	4	1	1	6
Amounts charged/(released) to the income statement	4	25	1	—	—	4
Provisions utilised	(3)	—	(1)	—	—	—
At 31 December 2020	6	25	4	1	1	10

Notes to the financial statements

	AIB UK					
						2019
	Customer redress	Litigation	Onerous contracts	Property dilapidations	ECLs on off-balance sheet items	Total
	£m	£m	£m	£m	£m	£m
	(a)	(c)	(d)	(e)	(f)	
At 31 December 2018	4	4	3	—	8	19
Impact of adopting IFRS 16 at 1 January 2019 ⁽¹⁾	—	—	(1)	1	—	—
Restated balance at 1 January 2019	4	4	2	1	8	19
Amounts charged/(released) to the income statement	4	1	(1)	—	(2)	2
Provisions utilised	(3)	(1)	—	—	—	(4)
At 31 December 2019	5	4	1	1	6	17

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 2020 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 £1m (2019: £2m) the provision held as at 31 December 2020 is £0.2m (2019: £1m). The remaining provision is expected to be utilised in 2021.

Interest Rate Hedging Products (IRHP) Provision

A provision of £0.2m (2019: £1m) was remaining at 31 December 2020 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 2020. £2m (2019: £2m) was paid out during the year in respect of mis-selling claims and legal costs and a net £4m (2019: £3m) increase in the provision charged to the income statement leaving a provision of £7m at 31 December 2020 (2019: £5m). £5m of the provision will be utilised in 2021 with outflows relating to the remaining provisions expected to occur after a further 2 years.

- b) A provision for restructuring costs of £25m, in relation to the implementation of a revised strategy, was held at 31 December 2020, of which £19m relates to expected costs of termination benefits for staff impacted by the reorganisation. £22m of the provision is expected to be utilised in 2021 with the remainder in 2022.
- c) AIB UK Group has made provision for the cost of a number of legal claims that were outstanding at 31 December 2020. Management believes the amount provided of £5m (2019: £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 2020 of £1m (2019: £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 2020 £nil (2019: £1m) of the remaining onerous lease provision was released. The provision is expected to be utilised over a period of 3 years.
- e) With the transition to IFRS 16 on 1 January 2019, a provision for property dilapidations was created of £1m. This 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 24), 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 2020 remains at £1m (2019: £1m).

Notes to the financial statements

- f) ECLs on off-balance sheet items consists of ECLs on loan commitments and on financial guarantee contracts as provided for under IFRS 9 and reported within IAS 37 *Provisions for liabilities and commitments*. Loan commitments and guarantees are described and included in contingent liabilities and commitments in note 36 and the internal credit ratings of these liabilities are set out in note 20 (j). The provision at 31 December 2020 of £10m (2019: £6m) consists of ECLs on loan commitments of £8m (2019: £4m) and ECLs on financial guarantee contracts of £2m (2019: £2m). The amount charged to the income statement in 2020 of £4m (2019: £2m release) relates to ECLs on loan commitments and is within the Net credit impairment charge (note 11).

33. Secondary non-preferential debt

	AIB UK Group & AIB UK	
	2020	2019
	£m	£m
Secondary non-preferential debt		
£45m Secondary non-preferential debt due 2022, callable 2021 from AIB Holdings (N.I.) Limited	—	45
£45m Secondary non-preferential debt due 2022, callable 2021 from AIB plc	45	—
	45	45

On 31 December 2020, AIB plc acquired 100% of the shares in AIB UK from AIB Holdings (N.I.) Limited ('HNI') (see note 44). As part of this internal reorganisation the £45m secondary non-preferential debt that AIB UK had borrowed from HNI on 31 December 2019, for the purposes of meeting AIB UK MREL requirements, was repaid on 31 December 2020 and replaced with new secondary non-preferential debt from AIB plc of £45m (the 'new MREL loan').

The new MREL loan matures on 31 December 2022, but can be repaid at the option of AIB UK on 31 December 2021, subject to receipt of any required regulatory approval. The loan bears interest on the outstanding nominal amount at a rate of SONIA plus a margin of 130bps, payable half-yearly in arrears, beginning on 30 June 2021.

The new MREL loan is subordinated in right of payment to preferential creditors and ordinary non-preferential creditors, including depositors, and ranks in priority to all subordinated debt and own funds instruments of AIB UK.

34. Share capital

	AIB UK Group & AIB UK	
	2020	2019
	£m	£m
Authorised, issued and fully paid ordinary shares of £1 each	2,384	2,384

No ordinary shares were issued in 2020 or 2019.

Notes to the financial statements

35. Analysis of movements in reserves and other comprehensive income

	AIB UK Group & AIB UK					
	2020			2019		
	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	(8)	2	(6)	(3)	1	(2)
Change in fair value recognised in equity	36	(10)	26	20	(5)	15
Total	28	(8)	20	17	(4)	13
Retained earnings						
Actuarial (loss)/gain in retirement benefit schemes (note 27)	(30)	5	(25)	(247)	62	(185)
Total	(30)	5	(25)	(247)	62	(185)
Other comprehensive income	(2)	(3)	(5)	(230)	58	(172)

36. Contingent liabilities and commitments

In the normal course of business, AIB UK Group is a party to financial instruments with off-balance sheet risk to meet the financing needs of customers. These instruments involve, to varying degrees, elements of credit risk which are not reflected in the statements of financial position. Credit risk is defined as the possibility of sustaining a loss because the other party to a financial instrument fails to perform in accordance with the terms of the contract.

AIB UK Group 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. AIB UK Group's maximum exposure to credit loss under contingent liabilities and commitments, in the event of default by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments as shown in the table below.

	AIB UK Group & AIB UK	
	2020	2019
	Contract amount £m	Contract amount £m
Contingent liabilities⁽¹⁾		
Guarantees and irrevocable letters of credit	162	151
Other contingent liabilities	43	48
	205	199
Commitments⁽²⁾		
Documentary credits and short term trade related transactions	22	22
Undrawn credit facilities		
- One year and over	1,220	987
- Less than one year	786	783
	2,028	1,792
	2,233	1,991

⁽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.

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

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

Notes to the financial statements

Chargeback risk

AIB UK has a 16.6% equity interest (note 21), 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. This company provides merchant processing services. Fiserv Corporation, a company incorporated in USA and a global provider of payments and financial services technology solutions owns the remaining 50.1% of Zolter Services d.a.c. FMPI activities are principally focused on the provision of merchant processing services (acquirer) in respect of card transactions to merchants with Ireland, UK, Europe and globally with partners.

As a merchant acquirer, FMPI processes payments for point of sale and ecommerce transactions on behalf of its merchants. In the event that a merchant fails to deliver goods or services which have been paid for by card transaction supported by FMPI, the purchaser of the goods or services may seek a refund or raise chargeback under VISA/MasterCard and Other Schemes rules. As part of its role as a merchant acquirer FMPI bears the potential risk of chargebacks. Whilst the primary obligation to refund rests with the merchant, in cases in which the merchant is unable to meet its obligations in refunding the cardholder, the cardholder's bank can raise a chargeback via the schemes and pass this to FMPI who in turn passes the chargeback to the merchant. Where the merchant is ultimately unable to meet its obligations due to insolvency or business failure then the acquirer, FMPI may incur a chargeback loss.

In the event that FMPI is unable to meet its obligations arising from chargebacks, the risk reverts to AIB UK and AIB plc as the principal members of the card schemes for FMPI. At 31 December 2020, FMPI carries a potential chargeback risk, associated with the AIB UK card scheme membership, amounting to approximately £1.1bn.

While FMPI has not made any material provision for this chargeback risk following a detailed risk assessment during 2020, it is acknowledged that given the impact of COVID-19, the related uncertainties affecting merchants and the sustainability of their business models, there is material uncertainty in relation to the chargeback risk assumption that merchants will recommence providing, or continue to provide goods/services to cardholders, thus removing or mitigating chargeback risk.

If this material uncertainty crystallises with very significant and material chargeback losses it may impact FMPI's ability to continue as a going concern, and in the event that either FMPI or Zolter Services d.a.c. cannot meet its chargeback obligations, the risk would revert to AIB UK where AIB UK is the principal member of that scheme. However, there is an indemnity in place from Fiserv to cover 50.1% of any losses that may arise in this situation (based on Fiserv shareholding in Zolter d.a.c.).

Notes to the financial statements

37. Classification and measurement of financial assets and financial liabilities

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The accounting policies for financial assets in note 1.12 and financial liabilities in note 1.13 describe how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the carrying amounts of the financial assets and financial liabilities by category as defined in IFRS 9 *Financial Instruments: Recognition and Measurement* and by statement of financial position heading at 31 December 2020 and 2019.

					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	Loans and advances	Other	
	£m	£m	£m	£m	£m
Financial assets					
Cash and balances at central banks	—	—	4,458	83 ⁽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	11,898	102	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⁾Comprises cash on hand.

Notes to the financial statements

AIB UK Group					
2019					
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	Loans and advances	Other		
£m	£m	£m	£m	£m	
Financial assets					
Cash and balances at central banks	—	—	3,251	77 ⁽¹⁾	3,328
Items in the course of collection	—	—	5	—	5
Derivative financial instruments	95	27	—	—	122
Loans and advances to banks	—	—	726	—	726
Loans and advances to customers	—	—	7,105	—	7,105
Investment securities	32	—	—	—	32
Other financial assets	—	—	—	17	17
127	27	11,087	94		11,335
Financial liabilities					
Deposits by banks	—	—	—	539	539
Customer accounts	—	—	—	8,893	8,893
Derivative financial instruments	100	8	—	—	108
Other financial liabilities	—	—	—	222	222
Secondary non-preferential debt	—	—	—	45	45
100	8	—	9,699		9,807

⁽¹⁾Comprises cash on hand.

38. Fair value of financial instruments

The term 'financial instruments' includes both financial assets and financial liabilities. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the 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.
- Level 3 - financial assets and liabilities measured using valuation techniques which use unobservable market data.

Notes to the financial statements

All financial instruments are initially recognised at fair value. Financial instruments held for trading, financial instruments in fair value hedge relationships 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 2020.

The methods used for calculation of fair value in the year to 31 December 2020 are as follows:

Financial instruments measured at fair value in the financial statements

Derivative financial instruments

Where derivatives are traded on an exchange, the fair value is based on prices from the exchange. The fair value of over-the-counter derivative financial instruments is estimated based on standard market discounting and valuation methodologies which use reliable observable inputs including yield curves and market rates. These methodologies are implemented by the Finance function and validated by the Risk function. Where there is uncertainty around the inputs to a derivative's valuation model, the fair value is estimated using inputs which provide the 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: (Option replacement cost x PD x LGD). PDs are derived from market based Credit Default Swap ('CDS') information. As most counterparties do not have a quoted CDS, PDs are derived by mapping each counterparty to an index CDS credit grade. LGDs are based on the specific circumstances of the counterparty and take into account valuation of offsetting security where applicable. For unsecured counterparties, an LGD of 60% is applied.

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 applying a revenue multiplier to the income 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 is 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.

Valuation techniques are used in estimating the fair value of loans, primarily using discounted cash flows and applying market rates where practicable and taking credit risk into account.

With regard to the above valuation techniques regarding cash flows and discount rates, a key assumption for loans and advances is that the carrying amount of variable rate loans (excluding mortgage products) approximates to market value. For fixed rate loans, the fair value is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in that portfolio.

The fair value of mortgage products, including tracker mortgages, is calculated by discounting expected cash flows using discount rates that reflect the interest rate/credit risk in the portfolio.

Notes to the financial statements

Deposits by banks, customer accounts and secondary non-preferential debt

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

Other financial assets and other financial liabilities

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

Commitments pertaining to credit-related instruments

Details of the various credit-related commitments and other off-balance sheet financial guarantees entered into by AIB UK Group are included in note 36. Fees for these instruments may be billed in advance or in arrears on an annual, quarterly or monthly basis. In addition, the fees charged vary on the basis of instrument type and associated credit risk. As a result, it is not considered practicable to estimate the fair value of these instruments because each customer relationship would have to be separately evaluated.

The table below sets out the carrying amount and fair value of financial instruments across the three levels of the fair value hierarchy at 31 December 2020 and 2019:

AIB UK Group					
2020					
	Carrying amount	Fair value			
		Fair value hierarchy			Total
		Level 1	Level 2	Level 3	
	£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

Notes to the financial statements

AIB UK Group					
2019					
	Carrying amount	Fair value			
		Fair value hierarchy			
	£m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets measured at fair value					
Derivative financial instruments	122	—	36	86	122
Equity investment securities at FVTPL	32	—	—	32	32
	154	—	36	118	154
Financial assets not measured at fair value					
Cash and balances at central banks	3,328	77	3,251	—	3,328
Items in the course of collection	5	—	—	5	5
Loans and advances to banks	726	—	398	328	726
Loans and advances to customers	7,105	—	—	7,097	7,097
Other financial assets	17	—	—	17	17
	11,181	77	3,649	7,447	11,173
Financial liabilities measured at fair value					
Derivative financial instruments	108	—	108	—	108
	108	—	108	—	108
Financial liabilities not measured at fair value					
Deposits by banks	539	—	250	305	555
Customer accounts	8,893	—	—	8,896	8,896
Other liabilities	222	—	—	222	222
Secondary non-preferential debt	45	—	—	45	45
	9,699	—	250	9,468	9,718

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 2020 and 2019.

Notes to the financial statements

Reconciliation of balances in Level 3 of the fair value hierarchy

AIB UK Group			
2020			
Financial assets			
Derivatives	Investment securities Equities at FVTPL	Total	
£m	£m	£m	
At 1 January 2020	86	32	118
Transfers into/out of level 3 ⁽¹⁾	—	—	—
Total gains or losses in:			
<i>Profit or loss:</i>			
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.

AIB UK Group			
2019			
Financial assets			
Derivatives	Investment securities Equities at FVTPL	Total	
£m	£m	£m	
At 1 January 2019	62	33	95
Transfers into/out of level 3 ⁽¹⁾	—	—	—
Total gains or losses in:			
<i>Profit or loss:</i>			
Net trading income	24	—	24
Net change in FVTPL	—	(1)	(1)
At 31 December 2019	86	32	118

⁽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 instrument categorised as Level 3 in the fair value hierarchy:

		Fair value		Valuation technique	Significant unobservable input	Range of Estimates	
Financial instrument		31 December 2020 £m	31 December 2019 £m			31 December 2020	31 December 2019
Derivatives	Asset	118	86	CVA	(1) LGD	43% - 62% (Base 52%)	47% - 67% (Base 57%)
	Liability	—	—	CVA	PD	0.5% - 3.1% (Base 1.3% 1 year PD)	0.2% - 0.7% (Base 0.4% 1 year PD)
				FVA	(1) Funding spreads	(0.2%) - 0.3%	(0.2%) - 0.3%
Investment securities - equity	Asset	34	32	Expected market value	Revenue multiplier	x 3.5	x 3

(1) The fair value measurement sensitivity to unobservable inputs at 31 December 2020 ranged from (i) negative £10m to positive £4m for CVA (31 December 2019: negative £5m to positive £2m) and (ii) negative £2m to positive £1m for FVA (31 December 2019: negative £1m 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 technology at 31 December 2020 and 2019:

						2020	
						Level 3	
						Effect on income statement	
						Effect on other comprehensive income	
						Favourable	Unfavourable
						£m	£m
Classes of financial assets							
Derivative financial instruments						5	(12)
Investment securities - equity						14	(7)
Total						19	(19)
						2019	
						Level 3	
						Effect on income statement	
						Effect on other comprehensive income	
						Favourable	Unfavourable
						£m	£m
Classes of financial assets							
Derivative financial instruments						3	(6)
Investment securities - equity						3	(3)
Total						6	(9)

Notes to the financial statements

39. 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 following 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 provisions for impairment. 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

	2020									
	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	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	—	

Notes to the financial statements

	2019									
	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	582	—	—	—	—	—	—	—	144	726
Loans and advances to customers	3,916	2,511	331	127	97	100	79	72	(128)	7,105
Investment securities	—	—	—	—	—	—	—	—	32	32
Other assets	3,251	—	—	—	—	—	—	—	538	3,789
Total assets	7,749	2,511	331	127	97	100	79	72	586	11,652
Liabilities										
Deposits by banks	426	23	19	8	9	8	7	39	—	539
Customer accounts	6,152	274	585	165	2	—	—	—	1,715	8,893
Other liabilities	—	—	—	—	—	—	—	—	457	457
Shareholders' equity	—	—	—	—	—	—	—	—	1,763	1,763
Total liabilities and shareholders' equity	6,578	297	604	173	11	8	7	39	3,935	11,652
Derivative financial instruments affecting interest rate sensitivity	(658)	2,131	(426)	(221)	(84)	(64)	(91)	(587)	—	
Interest sensitivity gap	1,829	83	153	175	170	156	163	620	(3,349)	
Cumulative interest sensitivity gap	1,829	1,912	2,065	2,240	2,410	2,566	2,729	3,349	—	

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 following table sets out the estimated impact on AIB UK Group's base case projected net interest income for 2020 due to shocks of 100 basis points (bps) to the current market-implied path of interest rates. The sensitivities shown represent AIB UK Group's assessment as to the change in expected base case net interest income under the two rate scenarios assuming that all other non-interest rate risk variables remain constant, and there are no management actions.

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.

The net interest income sensitivities shown are indicative and based on simplified scenarios, including the assumption that the balance sheet size and structure remains static, other than instances where the size of the balances or repricing is deemed interest rate sensitive (non-interest bearing current account migration and fixed rate loan early prepayment).

	2020	2019
Sensitivity of projected net interest income to interest rate movements	£m	£m
+ 100 basis point parallel move in all interest rates	63	53
- 100 basis point parallel move in all interest rates	(54)	(68)

Notes to the financial statements

40. Statement of cash flows - additional information

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

	AIB UK Group		AIB UK	
	2020	2019	2020	2019
	£m	£m	£m	£m
Loss allowance on financial assets	178	18	178	18
Net (gain)/loss on equity investments measured at FVTPL	(2)	1	(2)	1
Provision for liabilities and commitments	30	3	30	4
Depreciation, amortisation and impairment	26	13	26	13
Dividends received from subsidiary undertakings	—	—	(12)	—
Reversal of impairment in subsidiary	—	—	—	(1)
Retirement benefits-defined benefit income	(1)	(10)	(1)	(10)
Decrease in prepayments and accrued income	2	—	2	—
Decrease in accruals and deferred income	(4)	(1)	(4)	(1)
Profit on disposal of loans and advances to customers	(3)	(4)	(3)	(4)
Total non-cash items	226	20	214	20

Analysis of cash and cash equivalents

For the purpose of the statement of cash flow, cash and cash equivalents comprise the following balances:

	AIB UK Group		AIB UK	
	2020	2019	2020	2019
	£m	£m	£m	£m
Cash and balances with central banks	4,541	3,328	4,541	3,328
Loans and advances to banks ⁽¹⁾	177	244	177	244
Deposits by banks	(56)	(69)	(56)	(69)
Cash and cash equivalents	4,662	3,503	4,662	3,503

⁽¹⁾Excluding regulatory balances with the Bank of England.

Notes to the financial statements

41. Financial assets and liabilities by contractual residual maturity

						2020
	Repayable on demand	3 months or less, but not repayable on demand	1 year or less, but over 3 months	5 years or less, but over 1 year	Over 5 years	Total
	£m	£m	£m	£m	£m	£m
Financial assets						
Loans and advances to banks	555	28	—	—	—	583
Loans and advances to customers ⁽¹⁾	217	204	318	3,839	2,524	7,102
	772	232	318	3,839	2,524	7,685
Financial liabilities						
Deposits by banks	56	25	—	259	70	410
Customer accounts	8,606	623	495	254	1	9,979
Secondary non-preferential debt	—	—	—	45	—	45
	8,662	648	495	558	71	10,434

⁽¹⁾Shown gross of loss allowance on financial assets.

						2019
	Repayable on demand	3 months or less, but not repayable on demand	1 year or less, but over 3 months	5 years or less, but over 1 year	Over 5 years	Total
	£m	£m	£m	£m	£m	£m
Financial assets						
Loans and advances to banks	680	46	—	—	—	726
Loans and advances to customers ⁽¹⁾	290	151	369	3,916	2,468	7,194
	970	197	369	3,916	2,468	7,920
Financial liabilities						
Deposits by banks	69	119	13	257	81	539
Customer accounts	7,391	736	592	172	2	8,893
Secondary non-preferential debt	—	—	—	45	—	45
	7,460	855	605	474	83	9,477

⁽¹⁾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.

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42. Financial liabilities by undiscounted contractual maturity

The table below shows the undiscounted cash outflows, relating to principal and interest, on the AIB UK Group financial liabilities on the basis of their earliest possible contractual maturity. The expected cash outflows on some financial liabilities, for example customer demand deposits, vary significantly from the contractual cash outflows. In the daily management of liquidity risk, AIB UK Group adjusts the contractual outflows on customer deposits to reflect inherent stability of these deposits. Offsetting the liability outflows are cash inflows from the assets on the statement of financial position. Additionally, AIB UK Group holds a stock of high quality liquid assets (as outlined in note 16), which are held for the purpose of covering unexpected cash outflows.

	Repayable on demand	3 months or less, but not repayable on demand	1 year or less, but over 3 months	5 years or less, but over 1 year	Over 5 years	2020 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
						2019
	Repayable on demand	3 months or less, but not repayable on demand	1 year or less, but over 3 months	5 years or less, but over 1 year	Over 5 years	Total
	£m	£m	£m	£m	£m	£m
Financial liabilities						
Deposits by banks	69	123	14	260	81	547
Customer accounts	7,391	742	596	173	2	8,904
Derivative financial instruments	—	8	19	55	49	131
Other liabilities	222	—	—	—	—	222
Secondary non-preferential debt	—	—	1	46	—	47
	7,682	873	630	534	132	9,851

The table below shows the contractual expiry by maturity of AIB UK Group's contingent liabilities and commitments.

	2020	2019
	Repayable on demand	Repayable on demand
	£m	£m
Contingent liabilities	205	199
Commitments	2,028	1,792
	2,233	1,991

AIB UK Group expects that not all of the contingent liabilities or commitments will be drawn before expiry date.

Notes to the financial statements

43. Related party transactions

Related parties are those persons or entities that are related to the entity preparing its financial statements. They can include persons who have significant control or influence on the entity, entities that are members of the same group of companies, or associated companies or joint ventures.

In AIB UK Group's case related parties comprise key management personnel, the Parent and fellow subsidiaries, and the pension funds.

(a) Transactions, arrangements and agreements involving Directors and others

Key management personnel 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 Senior Management 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 key management personnel and other related parties were:

	2020			2019		
	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	6	21	1.3	7	18	1.4

Home and personal loans to key management personnel 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 2020 and 2019.

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 key management personnel during the year:

	Key management personnel		Highest paid key management personnel	
	2020 £m	2019 £m	2020 £m	2019 £m
Salary and other short term benefits	3.2	3.4	0.4	0.5
Post-employment benefits	0.3	0.3	—	—
Termination benefits	0.2	—	—	—
Total	3.7	3.7	0.4	0.5

In 2020, there were 23 key management personnel for all or part of the year (2019: 19). 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 (2019: £nil).

No share options were granted or exercised during 2020 (2019: nil), and there were no options to subscribe for ordinary shares in the ultimate parent, AIB Group plc, outstanding in favour of key management personnel at 31 December 2020 (2019: nil). There were no long-term incentive schemes in operation during the year (2019: nil).

Termination benefits relate to severance payments made to key management personnel who left during 2020 (2019: £nil).

(c) Provision of banking services to UK Pension Funds and Employee Share Trusts

AIB UK Group provides normal banking facilities for the UK Scheme on terms similar to those applied to third parties.

Notes to the financial statements

(d) 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 Group enters into transactions with the subsidiary companies listed in note 22. Funding is provided on terms similar to those that apply to third parties.

The table below provides the balances that AIB UK Group has with its immediate parent and subsidiaries and the transactions included in the income statement:

	2020		2019	
	Immediate parent	Subsidiaries	Immediate parent	Subsidiaries
	£m	£m	£m	£m
Statement of financial position				
Deposits	—	13	—	27
Secondary non-preferential debt	—	—	45	—
Income statement				
Interest expense	1	—	—	—

(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:

	2020		2019	
	AIB plc	Fellow subsidiaries	AIB plc	Fellow subsidiaries
	£m	£m	£m	£m
Statement of financial position				
Loans and advances	140	—	255	—
Deposits	156	39	285	57
Derivative financial instruments assets	60	—	31	—
Derivative financial instruments liabilities	140	—	106	—
Secondary non-preferential debt	45	—	—	—
Income statement				
Interest income	14	—	43	—
Interest expense	10	—	47	—
Net fee and commission income	—	3	—	10
Trading and other income/(expense)	(48)	—	(37)	—
Administrative expenses	30	—	29	—

In 2020, there were no transactions between AIB UK Group and the ultimate holding company, AIB Group plc. (2019: £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 2020, AIB UK Group recognised £1.3m (2019: £4.6m) fair value amortisation income on these loans.

Notes to the financial statements

(g) Transactions with Key Management Personnel

Connected persons

The aggregate of loans to connected persons of Directors in office are as follows (aggregate of 6 persons; 2019: 3):

	2020 £'000	2019 £'000
Loans	10	12
Total	10	12

The total interest received on these loans in 2020 was £nil (2019: £nil).

The loans are made on normal commercial terms, and an insignificant expected credit loss allowance is held on these loans at 31 December 2020 and 2019.

44. Events after the reporting period

Post model adjustment

After the year-end AIB UK Group identified that an additional adjustment of £13m was required for the impact of increased COVID-19 related restrictions announced by the UK Government in early January 2021. For further details see note 20: Credit risk disclosures, page 101.

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:

Change of immediate parent

On 16 February 2021 AIB plc replaced HNI as the immediate parent company of AIB UK (see note 45: Parent company).

Sale of loan portfolio

On 19 February 2021 AIB UK Group agreed to sell a portfolio of non-performing loans with a gross carrying value of £17m to a third party for a cash consideration of approximately £7m.

Change in corporation tax rate

An increase in the corporation tax rate to 25% from 1 April 2023 was announced in the UK Budget on 3 March 2021. This rate is expected to be substantively enacted later in 2021. See note 26: Deferred taxation for the sensitivity of the deferred tax asset to a change in the corporation tax rate.

45. Parent company

Reference to the immediate parent undertaking refers to AIB Holdings (N.I.) Limited, a company registered in Northern Ireland. AIB plc is the smallest group for which consolidated accounts are prepared.

On 31 December 2020, the Boards of AIB plc, HNI and AIB UK Group approved an internal AIB Group reorganisation. As part of this reorganisation, AIB plc acquired 100% of the shares in AIB UK from HNI. On 16 February 2021, AIB UK received the stamped stock transfer form from HMRC and AIB plc was recorded as the sole shareholder on AIB UK's register of shareholders on that date. AIB plc replaces HNI as the immediate parent company of AIB UK.

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
ALCo	Asset & Liability Management Committee
APM	Alternative Performance Measure
APP	Assured Payment Policy
Arrears	Arrears relates to any interest or principal on a loan which was due for payment, but where payment has not been received.
b	Billions
BAME	Black, Asian and Minority Ethnic
BBLs	Bounce Back Loan Scheme
bps	Basis points
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
CFO	Chief Financial Officer
CLBILS	Coronavirus Large Business Interruption Scheme
CMI	Continuous Mortality Investigation
Code	Code of Conduct
Contractual maturity	The period when a schedule payment is due and payable in accordance with the terms of a financial instrument.
CPI	Consumer Price Index
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 Bank 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 Basel II context when a loan is either 91+ days past due or impaired, and may require additional capital to be set aside.
DPD	Days past due
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
EIR	Effective interest rate
ERU	Economic Research Unit
ESOS	Energy Savings Opportunity Scheme
EU	European Union
ExCo	Executive Committee
FCA	Financial Conduct Authority

Forbearance	Forbearance is the term that is used when repayment terms of the mortgage contract have been renegotiated to make payment terms more manageable for borrowers. 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
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
GDP	Gross Domestic Product
GHG	Greenhouse Gas
HMRC	Her Majesty's Revenue and Customs
HNI	AIB Holdings (N.I.) Limited
IAS	International Accounting Standard Regulation
IASB	International Accounting Standards Board
IBOR	Interbank Offered Rate
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IMF	International Monetary Fund
IRBA	Internal Ratings Based Approach 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
IRRB	Interest Rate Risk in the Banking Book
KPI	Key Performance Indicator
kWh	Kilowatt-hour
LCR	Liquidity Coverage Ratio
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 as presented in the statement of financial position compared to customer accounts.
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
NI	Northern Ireland
NIM	Net interest margin
NPS	Net Promoter Score
OCI	Other comprehensive income
Off-balance sheet items	Off-balance sheet items include undrawn commitments to lend, guarantees, letters of credit, acceptances and other items as listed in Annex I of the CRR.
OneUK	Transformation programme launched in 2016, implemented and delivered during 2017. Cultural change and ways of working were key elements of this programme.
OpCo	Operations Committee
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.
PDH	Primary dwelling house
PHI	Permanent Health Insurance

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
PSD2	Payment Services Directive 2 (effective from 13 January 2018)
PRA	Prudential Regulation Authority
PwC	PricewaterhouseCoopers
RAROC	Risk Adjusted Return on Capital
RAS	Risk Appetite Statement
RCA	Risk and Control Assessment
Repo	A sale (and) repurchase agreement.
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
ROTE	Return on Tangible Equity
RPI	Retail Price Index
RWA	Risk weighted assets 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	Secure 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
Tier 1 capital	A measure of a bank's financial strength defined by the Basel Accord. It captures core Tier 1 capital plus other Tier 1 securities in issue, but is subject to deductions in relation to the excess of expected loss on the IRBA portfolios over the IFRS provision on the IRBA portfolios, securitisation positions and material holdings in financial companies.
Tracker mortgage	A tracker mortgage has a variable interest rate. The rate tracks the Bank of England (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
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.
3LOD	Three lines of defence