BACKING OUR CUSTOMERS

AIB Group plc
Annual Financial Report

for the financial year ended
31 December 2022

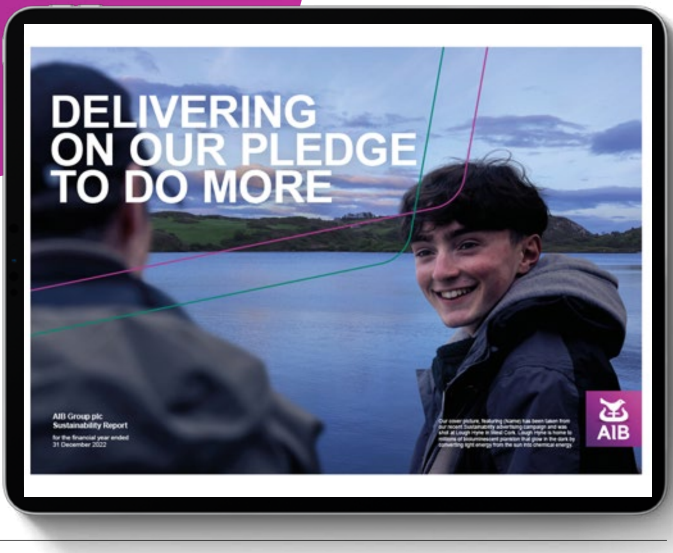
On our cover Dr Lisa O'Donoghue, CEO and Founder of Votechnik, which uses robotic technology in Co. Westmeath to depollute LCDs of hazardous materials.

OUR PURPOSE IS TO BACK OUR CUSTOMERS TO ACHIEVE THEIR DREAMS AND AMBITIONS.

AIB Group operates predominantly in Ireland and the United Kingdom. Our shares are quoted on the Irish and London stock exchanges and we are a member of the FTSE4Good Index. Our three core operating segments are Retail Banking, Capital Markets and AIB UK.

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

→ **Sustainability Report 2022** We are publishing this Annual Financial Report 2022 in conjunction with our Sustainability Report 2022, available on aib.ie/sustainability



This copy of the statutory annual report of AIB Group plc for the year ended 31 December 2022 is not presented in the ESEF-format as specified in the Regulatory Technical Standards on ESEF (Delegated Regulation (EU) 2019/815). The ESEF annual report will also be published on: https://aib.ie/investorrelations/financial-information/results-centre/2022-financial-results

INSIDE THIS REPORT

ANNUAL REVIEW

2 AIB Group at a Glance
4 Business Performance
6 Chair's Statement
8 Chief Executive's Review
12 Economic Overview
14 Business Model
16 Our Strategic Progress
17 Our Strategy in Action
22 Risk Summary
23 Principal Risks
26 Emerging Risks and Uncertainties
27 Sustainability in AIB

ESG DISCLOSURES

30 Task Force on Climate-Related Financial Disclosures
42 EU Taxonomy
44 Non-Financial Information Statement
48 World Economic Forum Stakeholder Capitalism Metrics

BUSINESS REVIEW

56 Operating and Financial Review
71 Capital

GOVERNANCE AND OVERSIGHT REPORT

76 Governance in AIB
78 Board of Directors
82 Executive Committee
84 Corporate Governance Report
93 Section 172 Statement
95 Report of the Board Audit Committee
101 Report of the Board Risk Committee
104 Report of the Nomination and Corporate Governance Committee
106 Report of the Remuneration Committee
109 Corporate Governance Remuneration Statement
115 Report of the Technology and Data Advisory Committee
116 Report of the Sustainable Business Advisory Committee
118 Internal Controls
120 Viability Statement
122 Directors' Report
125 Schedule to the Directors' Report
127 Other Governance Information
128 Supervision and Regulation

RISK MANAGEMENT

130 Risk Management Approach
134 Individual Risk Types

FINANCIAL STATEMENTS

210 Statement of Directors' Responsibilities
211 Independent Auditor's Report
223 Consolidated Financial Statements
229 Notes to the Consolidated Financial Statements
344 AIB Group plc Company Financial Statements
347 Notes to AIB Group plc Company Financial Statements

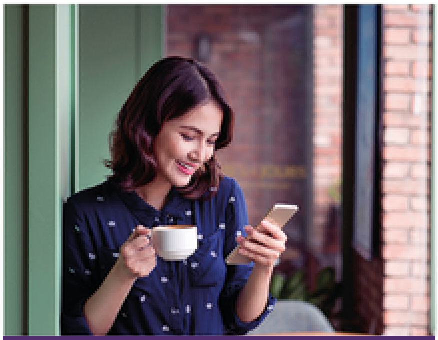
GENERAL INFORMATION

353 Shareholder Information
354 Forward Looking Statement
355 Glossary of Terms
361 Principal Addresses
362 Index

WELL POSITIONED IN KEY SECTORS

AIB Group operates three core segments in Ireland and the UK, and in recent years we have expanded our offering to further our ambition of being at the heart of our customers' financial lives while driving our sustainability agenda.

WHAT WE DO



RETAIL BANKING

2.9m active customers[1]

€34.1bn net loans

Retail Banking supports our personal and business customers with a comprehensive range of banking and financial services, delivered through our branch and digital channels with an expanded reach via EBS, Haven, AIB Merchant Services, Payzone, Nifti and AIB life.

→ **Read more on** pages 64 to 65

CAPITAL MARKETS

Relationship-driven model

€18.5bn net loans

Capital Markets serves AIB's large and medium-sized business customers as well as our private banking customers, providing deep-sector expertise combined with our comprehensive product offering. In 2021, Goodbody became part of Capital Markets.

→ **Read more on** pages 64 and 66

AIB UK

279k active customers[1]

£6.2bn net loans

AIB UK operates in the two distinct markets of Great Britain and Northern Ireland. Across both regions, AIB supports our corporate customers with sector-specific expertise. In Northern Ireland, we offer full service retail banking.

→ **Read more on** pages 64 and 67

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

OUR BRANDS

AIB is our principal brand across all our geographies. AIB provides a range of products and services to retail, business and corporate customers. AIB holds market-leading positions across key segments.

EBS is a predominantly mortgage-focused brand within AIB Group, helping thousands of customers buy their own homes in Ireland. It offers mortgage, personal banking, savings and investment products and services.

Haven is our mortgage broker channel, providing mortgages through intermediaries on behalf of AIB Group.

Payzone, a subsidiary of AIB Group, provides comprehensive payment solutions to more than 7,500 retail stores, over 100 clients and over 400,000 app users across Ireland.

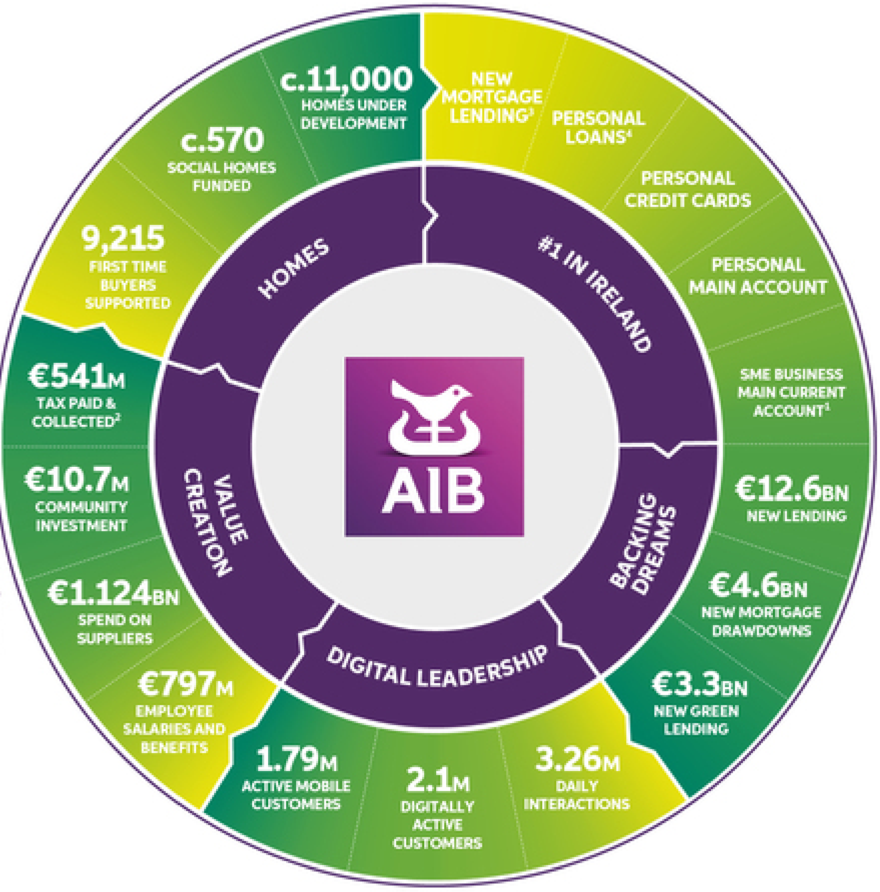
CREATING SUSTAINABLE VALUE FOR OUR CUSTOMERS AND OUR STAKEHOLDERS

Backing a Sustainable Future

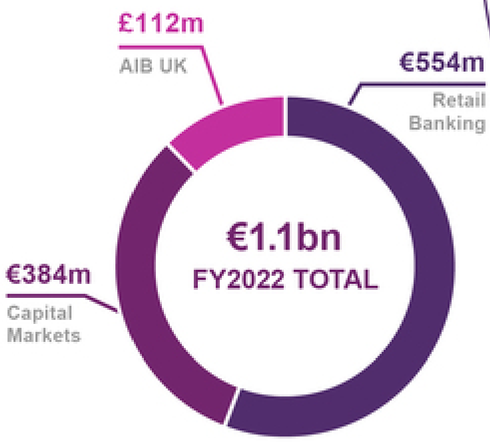
As a recognised leader of sustainability in Ireland, we are committed to supporting our customers, and the communities in which we operate, to make the transition to a low-carbon economy. We do this by making finance available and attractive for our customers to make greener choices.

Sustainable Communities is a key pillar of the AIB Group strategy (see pages 16 to 21) and we have three areas of focus:

- Climate & Environment;
- Economic & Social Inclusion; and
- Future Proof Business.



Operating contribution by segment[5]



Information as at 7 March 2023.
Consumer Data Points Source: IPSOS Personal Finance Market Pulse 2022.

1. SME Business Main Current Account 1st: Source: IPSOS SMEs Market Monitor 2022 on behalf of AIB.
2. 'Tax paid' (€268m) refers to taxes borne by the Group, including corporate tax, bank levy, employer social insurance and irrecoverable VAT. 'Tax collected' (€273m) comprises taxes collected from employees, customers and shareholders.
3. New mortgage lending FY2022.
4. Personal loans (ex car) among banks.
5. Operating contribution before exceptional items and excludes Group segment of €40m. For further information see Segment Reporting on pages 56 to 70 in the Operating and Financial Review.

Goodbody

Goodbody offers wealth management, asset management and investment banking services with quality advice and exceptional client service at the core of its offering.

AIB Merchant Services

AIB Merchant Services is a joint venture with Fiserv, a global leader in fintech and payments. It is one of Ireland's largest payment solution providers and one of Europe's largest e-commerce acquirers, with a global customer base.

Nifti

A joint venture with Autolease Fleet Management, **NiftiBusiness** and **Nifti Personal Leasing** promote mobility solutions. NiftiBusiness assists companies in achieving their fleet management goals; Nifti offers personal car leasing to consumers.

AIB life

AIB life is a joint venture with Great-West Lifeco providing protection, pensions and investments to help customers on their path to financial security one step at a time.

2022 RESULTS

FINANCIAL PERFORMANCE

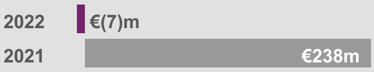
NET INTEREST INCOME

€2,159m

Interest income up 20%
Benefiting from the impact of a rising interest rate environment and higher average customer loan volumes

NET CREDIT IMPAIRMENT (CHARGE) / WRITEBACK

€(7)m



Small charge reflecting cautious approach
H2 charge of €316m to address emerging headwinds and downside risks from inflation and interest rates. H1 writeback of €309m which reflected the economic environment in Ireland with robust credit quality and repayments

PROFIT BEFORE TAX

€880m

Profit before tax up 40% to €880m
Operating profit[1] up 57% to €1,081m (operating income up 21% with operating expenses up 8%) and income from equity accounted investments of €37m partially offset by an impairment charge of €7m and exceptional items of €231m

NEW LENDING

€12.6bn

New lending up 22%
Strong growth in Irish mortgage lending (up 53%, market share 32%) and in property lending partially offset by lower syndicated lending

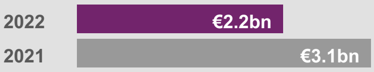
NET LOANS

€59.6bn

Net loans increase by €3.1bn to €59.6bn
Net loans up €3.1bn driven by the Ulster Bank portfolio acquisition and strong new lending exceeding redemptions

NON-PERFORMING EXPOSURES[2]

€2.2bn



3.5% of gross loans
Non-performing exposures (NPEs) decreased by €0.9bn to €2.2bn. NPE ratio now 3.5% with legacy[2] NPEs of €0.2bn or 0.4% of gross loans

ABSOLUTE COST BASE[3]

€1.66bn

Costs up 5% excluding Goodbody
Cost income ratio 57%

RETURN ON TANGIBLE EQUITY

9.6%

Return on Tangible Equity (RoTE) benefiting from increased profitability

CET1 RATIO (FULLY LOADED)[4]

16.3%

Strong capital position
Proposed dividend €166m and share buyback €215m

MEDIUM-TERM FINANCIAL TARGETS[5] (END 2024)

ABSOLUTE COST BASE[3]

TARGET

<€1.75bn

Costs <€1.75bn in 2024 with cost income ratio of circa 50%

RETURN ON TANGIBLE EQUITY

TARGET

>13%

Deliver sustainable returns; RoTE >13% in 2024

CET1 RATIO (FULLY LOADED)

TARGET

>13.5%

Appropriate capital target of CET1 >13.5%

1. Operating profit before impairment losses and exceptional items.
2. Non-performing exposures (NPEs) refers to non-performing loans (NPLs) and excludes €99m of off-balance sheet commitments. Legacy NPEs are exposures that entered into default prior to 31 December 2018.
3. Before bank levies, regulatory fees and exceptional items. For exceptional items see pages 60 and 69.
4. Excludes the impact of the proposed buyback of €215m, CET1 impact -0.4%.
5. Medium-term targets as announced on 2 December 2022.

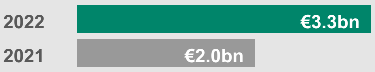
NON-FINANCIAL PERFORMANCE

Our approach continues to evolve in line with ESG reporting frameworks, which may result in variations in methodologies and reported outcomes over time.

GREEN FINANCE

Amount of new lending per year for climate action

€3.3bn



2022	€3.3bn
2021	€2.0bn

Growth in green finance delivered by strong performance in green mortgage products and continued lending for green buildings and renewable energy

TARGET

€2bn per year

DIGITALLY ACTIVE CUSTOMERS

Number of active customers on digital channels

2.10m

2022	2.10m
2021	1.85m

A strong increase in digitally active customers with increased mobile enablement

TARGET

>2.25m by 2023

CUSTOMER SATISFACTION

Transactional Net Promoter Score[1]
Measured after customer transactions for key touch points

+39

2022	+39
2021	+45

Customer First is a core pillar of AIB's strategy and we know that we have more to do. We have taken on board our customers' feedback and are committed to enhancing their experience in 2023 and beyond

TARGET

+53 by 2023

INCLUSION & DIVERSITY

Women as % of management

42%

2022	42%
2021	42%

Continued progress on our gender diversity target, maintaining gender balance across Board, Executive Committee and all managements

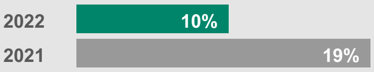
TARGET

Gender Balanced (Ongoing)[2]

REDUCTION IN OPERATIONAL EMISSIONS

% reduction in Scope 1 & 2 GHG emissions year-on-year

10%



2022	10%
2021	19%

Our property strategy and energy efficiency investments have been instrumental in reducing our GHG emissions to date

TARGET

Net Zero by 2030 (Own Operations)

1. Transactional Net Promoter Score (NPS) is an aggregation of 20 customer journeys across Homes, Personal, SME, Digital, Retail, Direct and Day-to-Day Banking.
2. The Equileap annual Gender Equality Global Report & Ranking equates 'gender balanced' with between 40% and 60% women.

WORKING TO DELIVER QUALITY, SUSTAINABLE RESULTS IN THE YEARS AHEAD

Jim Pettigrew
Chair

Our optimism for the future is based on the strength of our franchise in our chosen markets and sectors, on the strength of our balance sheet and on our strategy, through which we are broadening our income base and continuing to eliminate unnecessary complexity in our business model.

2022 was a noteworthy year in many respects. It was the year when the invasion of Ukraine elevated the geo-political uncertainty in Europe in particular, and precipitated both an energy crisis and a related cost-of-living crisis globally as inflation took hold. Society managed to bring the impact of the Covid-19 pandemic largely under control and saw most developed economies fully reopen. It was also the year which saw the reversal of negative interest rates, and in that respect, a return to a more normal operating environment for banks such as AIB.

Through the challenges described, the Irish economy has demonstrated particular resilience and most forecasters expect this resilience to endure for some time to come.

Dividend
In Colin's Chief Executive's Review, he sets out the very strong financial performance achieved by the Group in 2022 which allowed us report profit before taxation of €880m. I am pleased to report that the Board is recommending a dividend per share of 6.2 cent subject to shareholder approval at the Annual General Meeting on 4 May 2023. This represents an increase of 37.8% over the prior year.

Sell Down by the Irish State and the Group's Share Buyback Programme
Following his press release in December 2021, the Minister for Finance of Ireland followed this by executing a number of trades in AIB Group plc shares, both through an on-market share trading plan and through two accelerated book builds in June and November. This activity saw the Irish State's shareholding in the Group reduce from 71.12% to 56.89% over the course of the year and resulted in proceeds from the sales of over €1bn returned to the State.

The Group embarked on a €91m share buyback programme immediately following the AGM on 5 May 2022. The programme, comprising a mix of both on market purchases and a directed buyback from the Minister for Finance, completed on 25 May 2022 and saw a total of c. 40.9 million shares (1.51% of the shares in issue at the time) repurchased.

As the Minister was executing the trades described, some of our existing holders were increasing their holdings and new shareholders were joining the register. We welcome them and thank them all for their support and confidence in the Group. Your Board remains relentlessly focused on the Group executing its strategy to generate further value for all shareholders.

Board Changes During 2022
On 30 June 2022, Carolan Lennon, Senior Independent Director (SID) resigned from the Board and Helen Normoyle, who has served as an Independent Non-Executive Director since December 2015, succeeded her as SID. On behalf of the Board, I want to pay tribute to Carolan who made a significant contribution to the Board and its Committees during her time as a Director.

Sustainability
Our 2022 Sustainability Report published separately to this document sets out our targets and ambitions in the areas of sustainability and across the Environment, Social and Governance (ESG) agenda.
It also describes our involvement in our community through volunteering and charitable supports. We are proud of our achievements through 2022, in particular the increase of 65% in green lending to our customers – demonstrating our support for them in making the required transition to a low-carbon economy. The Report, together with Colin's Chief Executive's Review and the 'Sustainability in AIB' chapter of this Annual Report, reflects candidly on our progress to date, but also highlights where we have more to do. I encourage you to read these.

Thank You
The resilience of the Group is clearly demonstrated by such a strong performance in 2022. These results were achieved through the commitment and diligence of our employees and, on behalf of the Board, I want to thank each of them for their teamwork, innovation and determination and for putting our customers at the centre of everything we do, made especially challenging during 2022 as the industry grappled with the operational challenges of seeing two banks exiting the Irish market. I also want to thank our valued customers, those who joined us in 2022 and those of longer standing, for their loyalty and support and for placing their trust in us to take care of their financial needs. We take none of this for granted.

I also want to thank you, our shareholders, for your support for the Group.

Ambition for the Future
Our optimism for the future is based on the strength of our franchise in our chosen markets and sectors, in the strength of our balance sheet and on our strategy through which we are broadening our income base and continuing to eliminate unnecessary complexity in our business model.
I look forward to working with my Board colleagues and the Executives as we develop the next phase of our customer centric strategy during 2023 which will leverage our sustainability credentials and our commitment to be a key driver and enabler for our customers as they transition to Net Zero. We remain resolute in our determination that this Group will continue to deliver quality, sustainable results in the years ahead to the benefit of all of our stakeholders.

Jim Pettigrew
Chair
7 March 2023

CHIEF EXECUTIVE'S REVIEW

PROVIDING FINANCIAL STABILITY TO OUR CUSTOMERS IN A YEAR OF GREAT CHANGE

Colin Hunt
Chief Executive Officer

By any measure, 2022 was an eventful year as the restrictions of the Covid-19 pandemic receded and war broke out in Europe, sparking a humanitarian disaster, large-scale geo-political volatility, supply-chain issues and an energy crisis.

Rising inflation prompted central banks around the world to increase interest rates and in Europe the ECB raised rates for the first time in 11 years in July 2022. Despite high levels of volatility in the global environment, the Irish economy performed well notwithstanding the challenges of rising cost of living which impacted our customers, our people and the communities we serve. In light of these challenges it was imperative that the Group provided financial stability and continued strong support for our customers and the broader Irish economy.

AIB continued to progress our three-year strategy to transform the business, grow in scale and enhance our product offerings in what has become a rapidly evolving banking world. Providing customers with secure digital and physical banking services while helping to fund the nation’s vital infrastructure can only be done on the basis that the Group is on a sustainably profitable footing.

In 2022 the Group delivered strategic progress and a strong financial performance, reporting a profit before tax of €880m and a strong CET1 capital position of 16.3% (or 15.9% including the proposed share buyback).

This financial strength enables us, as the country’s principal financial services provider, to lead the mortgage market, support vital housing construction and play a key role in helping Ireland meet its emissions targets. Assisting our customers to lower their carbon footprint as well as backing green energy projects are priorities that can only be achieved through major investment in energy and climate action infrastructure.

The withdrawal of Ulster Bank and KBC is leading to a reshaping of the Irish banking sector. The exit of two such sizeable institutions placed a heavy demand on AIB, and we are pleased that in what is still a competitive market, thanks to a huge effort on the part of our colleagues, by the end of 2022 the bank had opened c. 450,000 new accounts, representing a 49% market share. This increased our customer base to approximately 3.2 million and embraced an extraordinary opportunity to build on our existing market-leading franchise.

Following the receipt of competition clearance in April 2022, we’ve made significant progress in bringing on board the Ulster Bank corporate and commercial loan book. As of 31 December, €2.1bn of good quality performing customer loans had migrated with the full transfer of loans and customers expected to be largely completed by the end of H1 2023. In June, we also agreed to buy Ulster Bank's performing tracker mortgage portfolio and in January 2023, we secured the necessary regulatory approvals for this transaction with formal completion expected in 2023.

Last year marked the first full year of renewed Goodbody ownership by AIB Group, broadening our customer offerings, particularly in capital markets, corporate finance and wealth management. Our joint venture with Great-West Lifeco, which we are calling AIB life, is on track to launch later this year and will transform our retail wealth and investment offering and provide our customers with a far broader range of life, pensions and savings solutions.

Against the backdrop of a more challenging UK economy, we focused on our chosen sectors, growing our corporate customer base following our decision to exit the GB SME market. We also continued to streamline our property holdings, exiting 50% of head office buildings in Dublin as employees continued to adopt hybrid working.

Among last year’s challenges was the adverse public reaction to remove some in-branch cash and cheque services and provide those services under our enhanced 20 year 'AIB at An Post' arrangement as part of a wider branch repurposing plan. While we transition to digital banking, many customers retain a strong attachment to the use of cash. We responded promptly to their feedback to our July announcement, reversing our decision and giving a commitment to remain alert and sensitive to the ongoing needs of our customers.

Concluding legacy issues that cast a shadow over the Group’s reputation for many years has been of paramount importance to AIB. In June 2022, the Central Bank of Ireland (CBI) announced the conclusion of the enforcement actions against AIB and EBS regarding the handling of Tracker mortgages, closing a very damaging chapter in the Group’s history with a €96.7m fine being paid in June.

A separate legacy matter relates to a series of investment property funds, known as Belfry, which the Group sold during the period 2002 to 2006, which subsequently incurred losses for c. 2,500 individual investors. In August 2021, the Group instigated a programme to review investments in the Belfry Fund on a case-by-case basis to determine if redress may be due. Investors have been advised of the outcome of the review of their investment. Where a refund is due to individual investors, payments commenced in the second half of 2022. An independent appeals process has been established and is available to all investors.

Looking forward and based on the progress that we made on the implementation of our plans, the altered economic and financial industry environment and the beginning of monetary policy normalisation, in December 2022 we reset our medium-term financial targets. As a result, we are targeting a RoTE of greater than 13% for 2024, a CET1 ratio above 13.5% and a cost base below €1.75bn in 2024 with a cost income ratio of c. 50%.

Financial Performance

Our 2022 financial performance reflects a position of strength as our core business segments showed continued momentum from 2021 and we are reporting a profit before tax of €880m for the full year. This includes an operating profit of €1,081m before impairment charge and exceptional items.

Total operating income of €2,895m was 21% higher than 2021. Net interest income of €2,159m increased by €365m or 20% year-on-year reflecting the impact of a rising interest rate environment and higher average loan volumes. Net interest margin (NIM) increased by 16bps to 1.74% in 2022 compared to 1.58% in 2021. Other income of €736m increased by €146m or 25% compared to 2021. This reflects the full-year impact of Goodbody following the acquisition in 2021 and an underlying increase of €107m or 19% driven by strong growth in net fee and commission income and higher equity investment gains.

Total operating expenses of €1,659m increased by €125m compared to 2021 again reflecting the full-year impact of Goodbody and an underlying increase in costs of €75m or 5% which incorporates inflation impacts and costs to on-board new customers from those banks exiting the Irish market. The Group's cost income ratio has improved to 57% compared to 64% in the prior year.

CHIEF EXECUTIVE'S REVIEW CONTINUED

There was a net credit impairment charge of €7m in 2022 comprising a €316m charge in the second half of the year which incorporates post-model adjustments to address emerging headwinds and downside risks from inflation and interest rate impacts on credit quality. In the first half of the year, there was a €309m writeback which reflected the economic environment in Ireland with robust credit quality and repayments as well as some release of post-model adjustments. Our overall approach remains conservative, comprehensive and forward-looking and is reflected in an expected credit loss coverage rate of 2.7%.

Exceptional items of €231m include a charge of €101m related to the aforementioned Belfry investment property funds, reflecting an increased provision for customer redress of €82m and associated costs of €19m. Also included is a charge of €27m relating to the conclusion of the Central Bank of Ireland enforcement investigation in respect of Tracker mortgages at AIB and EBS, most of which was provided for in prior years. Additional exceptional items primarily include restructuring and inorganic transaction costs.

New lending of €12.6bn in 2022 was €2.2bn or 22% higher than in 2021. Mortgage lending of €4.6bn was 48% higher driven by strong Irish mortgage lending of €4.5bn, up 53%, representing a market share of 32%. Property-related lending was up 50% to €2.7bn. Non-property lending of €4.3bn was 5% lower as higher renewable energy & infrastructure and corporate lending in Ireland was more than offset by lower syndicated and UK lending. Personal lending was up 10% to €1.0bn.

Gross loans at €61.2bn were up €2.8bn compared to 31 December 2021 with an increase in performing loans of €3.7bn offset by a reduction in non-performing loans of €0.9bn or 31%. Net loans increased by €3.1bn year-on-year driven by the acquisition of loans from Ulster Bank and new lending exceeding redemptions partially offset by the disposal of non-performing and UK SME loans. As at 31 December 2022, 90% of AIB's loan book is of strong or satisfactory quality (up from 87% at 2021 year end). Maintaining the quality of new lending is critical, with >98% of our new lending being of strong or satisfactory credit quality in 2022.

Non-performing loans as a percentage of gross loans to customers were 3.5% at 31 December 2022 compared to 5.4% at 31 December 2021. This decrease primarily reflects the disposal of loan portfolios of €0.5bn and redemptions of €0.6bn partially offset by net flow to non-performing of €0.3bn. We remain committed to reducing non-performing exposures (NPEs) to c. 3% of gross loans by the end of 2023 given the impact on cost, capital requirements and balance sheet resilience. Legacy NPEs were €0.2bn or 0.4% of total loans as at 31 December 2022.

AIB's funding and liquidity ratios remain robust. As customer deposits continue to accumulate our Loan to Deposit Ratio decreased to 58% at 31 December 2022 compared to 61% at 31 December 2021. We continue to have strong liquidity metrics (Liquidity Coverage Ratio 192% and Net Stable Funding Ratio 164%).

Debt securities issued of €7.2bn increased by €1.3bn from 31 December 2021 following further MREL related issuances of €3.2bn partly offset by the maturity of a covered bond of €0.75bn and buybacks of €0.85bn.

The Group has a strong capital base with a reported CET1 ratio of 16.3% (or 15.9% including the proposed share buyback) at 31 December 2022, well in excess of regulatory requirements and our medium-term target of greater than 13.5%. Our proposed distributions comprise an ordinary cash dividend of €166m and a share buyback of €215m.

Digital

The rate of growth in digital transactions continues at pace as our customers increasingly embrace this convenient, prompt and secure way of banking. In overall terms, the digital base grew 12%, to 2.1 million customers, with the strongest growth seen in the Mobile base which grew 15% to 1.8 million active customers. Within this wider trend, the particular highlight during 2022 was the significant increase in digital wallet adoption. The value of digital wallet payments more than doubled year-on-year to €4.8bn with the volume of such transactions increasing by 83% to 195 million.

Our customers are also increasingly sourcing their credit requirements via our digital channels. For instance, close to 90% of all applications for personal loans were carried out online in 2022 as were c. 25% of all mortgage applications.

And in a year when we were delighted to open a record number of new accounts, it was also pleasing to see that over 50% of new customers enjoyed the convenience of commencing their relationship with the bank via a digital channel.

During the year, we enhanced our Mobile payments offering with the launch of the Pay a Contact service. This enables customers to transfer funds swiftly to another AIB account holder in their phone contacts and precedes further planned enhancements of our range of digital products and services.

It is important to note that while digital transactions will increasingly represent the most frequent form of customer engagement with the bank, our people will continue to offer an essential personal service for customers.

Sustainable Communities

AIB seeks to be a driving force for the sustainability agenda in Ireland. In that regard, our primary role is to enable our customers and the communities in which we operate to make the transition to a low-carbon economy. Through our various offerings, we are making attractively priced finance available so our customers can make greener choices at home, at work, and at scale.

As the demands for greater transparency and accountability for ESG targets continue to grow, we have set Financed Emissions Targets for 75% of our loan book, increasing from 63% in 2021. More information on these targets can be found in our Sustainability Report 2022, page 25 to 27.

To that end, our green and transition lending continues to grow. We closed out 2022 with green and transition lending comprising 26% of Group new lending. This includes our Green Mortgage lending, which accounted for 28% of our overall mortgage lending. We're also seeing continued growth in our Energy, Climate Action and Infrastructure (ECAI) team, as we saw significant new green lending activity across onshore and offshore wind with a considerable uplift in solar activity. We will continue to play a leading role in funding renewable energy and infrastructure development.

Our experience is that the more sustainable lending we do, the more capital we can attract to finance such investment. The €750m raised from the issuance of AIB's fourth green bond in November 2022 brought us to a total of €3.25bn in green bonds to date – and €1.5bn in 2022 alone. Earlier in the year, in March, we raised €1bn through the issuance of a social bond, the first social bond issued by an Irish bank.

In terms of AIB's own transition, the Corporate Power Purchase Agreement with NTR plc, announced in October, was the first agreement of its kind in Ireland. We will source up to 80% of the Group's electricity needs from two solar farms that NTR plc will build in Ireland, while also generating additional capacity to feed into the national grid.

More broadly, the bank continued to demonstrate progress against our overall sustainability strategy, and highlights of our activity in 2022 can be found on pages 16 and 21. I was particularly pleased with the AIB Community €1 Million Fund, which benefited over 70 local charities, each identified by our customers and employees.

Culture and our People

The attraction and development of talent in the face of huge changes in the Irish banking sector and in the overall post-pandemic labour market has been essential to the delivery of our Group strategic priorities. AIB is a bank with 170 branches, deeply embedded in the community, a relationship that is further enhanced by our support of the GAA and other organisations such as FoodCloud, GOAL and, our newest charity partner, AsIAm. Our people are well placed to understand our customers' financial needs and requirements, their difficulties and their opportunities.

We have adopted flexible hybrid working arrangements for our employees, fostered a strong ethos of career development and maintained a leading position on inclusion and diversity (I&D), all while promoting wellbeing across the organisation and embedding a culture of accountability based on our organisation's values and behaviours. In September, we were delighted that AIB received Gold 'Investors in Diversity' Accreditation from the Irish Centre for Diversity, the first bank and largest employer in Ireland to receive this accolade.

Also during 2022, we reached a three-year pay agreement for non-management staff with the Financial Services Union and increased our entry-level salary rates.

A culture that supports our people in achieving a sustainable work-life balance throughout their careers is a key element of our people strategy. As such, we made progressive enhancements to our Family Leave policies and additionally we improved our practical supports for colleagues experiencing domestic violence, coercion or ill-treatment, both of which are outlined on page 20. We want to ensure a safe and supportive working environment for all our colleagues and will continue to review and enhance our policies so that our people can thrive professionally and personally.

It is vital that the Group's management team shows continuous energy and innovation to keep pace with the changing nature of the industry. This imperative continued to be realised in AIB through 2022 with three outstanding additions to our leadership team. In February, Hilary Gormley moved from Head of Business Banking in Dublin to become Managing Director of AIB UK. In July, we were joined by Mike Frawley as our new Chief Risk Officer and Andrew McFarlane as our new Chief Operating Officer. They bring enormous dynamism and experience to their respective roles.

Outlook

Ireland cannot remain unaffected while uncertainties and higher price pressures persist as features of the global economy. The prospect of recession among some of our main trading partners inevitably presents challenges for an open economy such as ours. Tighter financial conditions are likely to prevail for some time with domestic growth predicted by the ESRI to slow to 2.2% in 2023.

However, on the upside, the Irish economy has certain characteristics that should help counter-balance some of the risks. Our economy escaped with minimal scarring from the Covid-19 pandemic and last year recorded a near-record-low unemployment rate of less than 4.5%. The government's policy of targeting fiscal supports for families and businesses has been decisive in maintaining stability, contributing in part to the highest household savings ratios in the Eurozone. Balance sheets of households and businesses remain in very good health with real debt burdens at multi-decade lows and deposits continuing to build. These buffers are now forming a valuable protective layer against the worst of the current headwinds.

At this point we appear to have passed the point of peak inflation as energy costs ease, though the opening of the Chinese economy after almost three years of pandemic restrictions will potentially impact demand for oil and gas. Protecting and supporting customers is paramount so we will maintain a conservative approach to our underwriting standards as we move through the economic cycle and engage proactively with any customers anticipating or experiencing financial challenges arising from a more volatile economic environment.

Over the last year, the sell down of the State's shareholding in AIB continued. This is an important development in the process of returning the State's investment in the Group and a normalisation of the share register. Overall, the State shareholding reduced from 71% to just under 57% at December 2022 through a variety of means – namely, a trading plan, block sales and participation in our €91m share buyback. Among my key ambitions are the continued restoration of public trust in the institution and the maximum return of the State's investment to the taxpayer.

Our strong performance also enabled the resumption of the payment of dividends to shareholders in May 2022. We paid an ordinary dividend of €122m or 4.5c per share and we are committed to a progressive dividend distribution strategy, as our operational performance permits.

I have often remarked that the most extraordinary feature of AIB is the strength of our customer franchise. The Group is in its strongest position in decades and we will continue to deliver on our growth plan to the end of 2023. Our balance sheet, capital and liquidity positions are robust, our customer numbers in our core market are at an all-time high and we are well placed to deliver on our medium-term targets. We are optimistic about our business and I look forward to AIB Group delivering progressive and sustainable returns for our shareholders over the years ahead.

I wish to thank my fellow Board and Executive Committee members, and all my colleagues across the Group for their ongoing support, energy and enthusiasm. Their collective efforts are delivering tangible results and we can look forward to building this momentum through 2023 and beyond.

Finally, I thank our customers for their loyalty, and I welcome the many new customers who have chosen to start their financial relationship with AIB Group. The Group's ability to provide them with a professional, safe and reliable service underpins their confidence in us.

Colin Hunt
Chief Executive Officer
7 March 2023

ANOTHER YEAR OF STRONG IRISH GROWTH

While the global economy lost momentum in 2022, the Irish economy continued to perform well in comparison.

The global economy lost considerable momentum during 2022 after it had rebounded strongly in 2021 from the impact of the Covid-19 pandemic. The Russian invasion of Ukraine resulted in a sharp rise in commodity prices, especially energy and food prices. This contributed significantly to a sharp acceleration in inflation, which saw CPI rates rise to double-digit levels in both the UK and Eurozone. Central banks responded to the surge in inflation with a marked tightening of monetary policy that saw official rates rise by 250-425bps in the main Western economies in 2022.

The marked rise in inflation and interest rates, as well as elevated levels of uncertainty and heightened risk aversion, saw global growth forecasts revised downwards over the course of the year. The OECD now puts the rise in world GDP in 2022 at 3.1% compared to its 4.5% forecast at the start of the year, and down from the growth rate of 5.6% achieved in 2021. Meanwhile, the OECD forecast for growth in the world economy in 2023 has been scaled back appreciably to 2.2%. Labour markets, though, continued to tighten in 2022, with the unemployment rate touching multi-decade lows of 3.5% in the US and UK and falling to a record low of 6.6% in the Eurozone.

Irish Economy Continued to Perform Strongly
The Irish economy continued to perform very well in 2022 and, in contrast to elsewhere, growth forecasts were revised higher during the year. According to CSO data, GDP rose by 12% in 2022, which was only slightly down on the 2021 figure of 13.6%. The CSO data show the economy grew strongly on an annual basis right throughout the year.

The detailed data show that both the export sector and domestic economy registered impressive performances. Exports rose by 15% while modified final domestic demand (excludes certain significant globalisation effects) increased by 8.2%. Consumer expenditure rose by 6.6%, with a notable pick-up in spending on services, which increased by 11.5%. CSO figures show that core retail sales (i.e. excluding the motor trade) rose by 1.7% in 2022, while new car registrations were flat on the year. Meanwhile, domestic investment rose by 19.8%, led by robust growth in housing and business investment.

The Irish labour market maintained its strong performance in 2022. Continued net inward migration helped sustain solid growth in the workforce. Employment rose by a very strong 6.8% in 2022 and by end year was 9.2% above its pre-COVID end 2019 level. Meanwhile, the unemployment rate fell to 20-year lows. By the end of 2022, it stood at 4.4%, below its pre-Covid level of 4.8%. Inflation rose to high levels in Ireland in 2022 as elsewhere, with the annual HICP rate peaking at 9.6% in the summer before declining to 8.2% by year end.

Housing Completions Rise, but Commencements Fall Back from Peak
House prices in Ireland continued their marked uptrend in 2022. The latest CSO data show prices were up by 7.8% year-on-year in December. Rents in the residential sector also rose strongly during 2022, with CSO data showing them up 10.6% in December on previous year levels.

House building activity picked up considerably in 2022, after being held back by Covid-related lockdowns in the previous two years. CSO data put house completions at just below 30,000, up 45% from c. 20,500 per annum in the period 2019-2021. Meanwhile, official government data show housing commencements rose to a peak of 35,000 on a 12-month running total basis in the spring before falling back to 27,000 by the end of the year.

2022 GROWTH IN IRISH MODIFIED FINAL DOMESTIC DEMAND

8.2%

2022 IRISH UNEMPLOYMENT

4.4%

2022 HOUSING COMPLETIONS

29,851

> “The marked rise in inflation and interest rates, as well as elevated levels of uncertainty and heightened risk aversion, saw global growth forecasts revised downwards over the course of the year”

> “Central Bank data show new lending to the SME sector amounted to €2.25bn to end-September, up 8%”

High Levels of Savings, Mortgage Lending Jumps

A notable feature of the pandemic was a very sharp increase in private sector savings in many economies, including Ireland. Savings were maintained at a very high level in 2022. This manifested itself in a further marked rise in levels of Irish banking deposits in 2022. These stood at €315bn in December, up from €286bn at the start of the year.

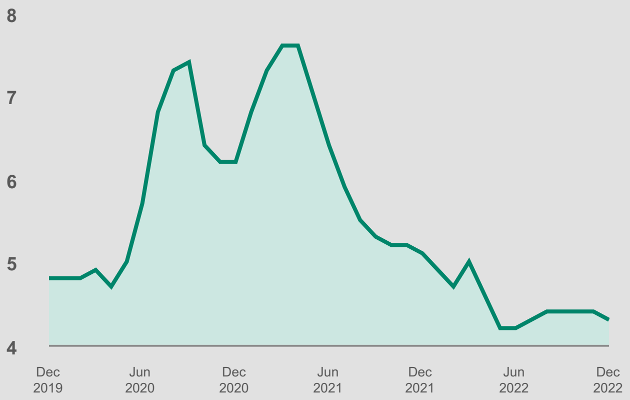
Mortgage lending continued to grow strongly in 2022, increasing by 34% to €14.1bn. However, the sharp rise was partly driven by a marked jump in switching activity. Meanwhile, Central Bank data show new lending to the SME sector amounted to €2.25bn to end-September, up 8% from the same period in 2021.

Outlook for 2023

All the main official international forecasters are projecting a challenging year for the global economy in 2023 as high inflation, much tighter financial conditions, less supportive stance of fiscal policy and continuing elevated levels of uncertainty weigh on the pace of activity. A recession is anticipated in the UK, with very weak growth forecast for the Eurozone and US economies. Labour markets remain tight, though, so the rise in unemployment is expected to be less pronounced than in previous downturns.

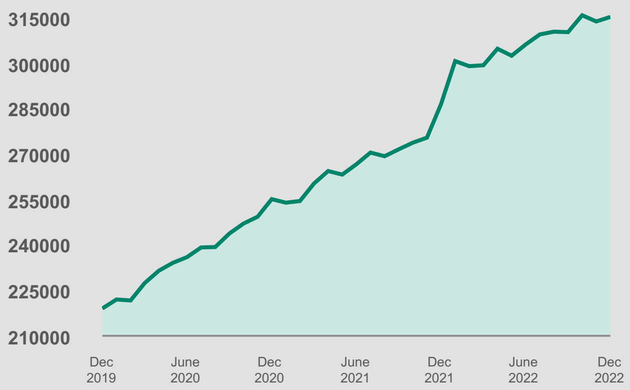
The Irish economy is not immune to these trends and the pace of growth here is set to slow appreciably in 2023. However, the Irish economy is still expected to continue to outperform. The IDA has indicated that there is a continuing positive pipeline of foreign direct investment into H1 2023. The public finances have returned to budget surpluses allowing fiscal policy to remain supportive of economic activity. Private sector balance sheets are characterised by low debt levels and high savings. Thus, most forecasts are for Irish GDP to grow by between 3% and 5% in 2023.

UNEMPLOYMENT RATE (%)



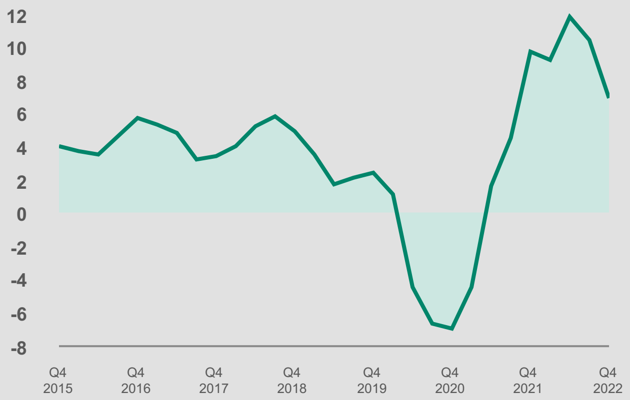
Source: CSO via Refinitiv

PRIVATE SECTOR DEPOSITS (TOTAL, €MN)



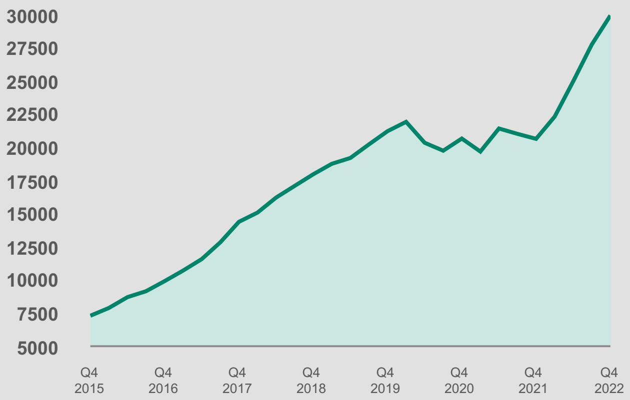
Source: CBI via Refinitiv

MODIFIED FINAL DOMESTIC DEMAND (excludes certain significant globalisation effects) (3 QTR MOV AVG, YOY, %)



Source: CSO via Refinitiv

NEW DWELLING COMPLETIONS (TOTAL, 4 QTRs)



Source: CSO via Refinitiv

HOW WE CREATE SUSTAINABLE VALUE

OUR RESOURCES

GROWING CUSTOMER BASE

c. 3.2m

Customers of AIB Group

OUR PEOPLE

9,590

Employees across the Group

LARGEST BRANCH NETWORK

170

AIB branches in Ireland

TRUSTED SUPPLIERS

c. 4,000

Active suppliers

OUR STRATEGY

- CUSTOMER FIRST
- SIMPLE & EFFICIENT
- RISK & CAPITAL
- TALENT & CULTURE
- SUSTAINABLE COMMUNITIES

CREATING VALUE SUSTAINABLY

Underpinned by our strong commitment to our sustainability strategy

→ **Read more:** page 28

CLIMATE & ENVIRONMENT

OUR VALUES

ELIMINATE COMPLEXITY

DRIVE PROGRESS

HOW WE CREATE VALUE
Our ambition is to be at the heart of our customers' financial lives

Market-Leading Franchise
Along with our Mobile App and Internet and Phone Banking services, AIB maintains the largest branch network in Ireland, with market-leading positions across multiple personal, SME and corporate products and services.

Leading Mortgage Provider
With a dedicated team of mortgage experts, AIB provides application options in-branch, over the phone or online. EBS is our mortgage-focused brand and Haven is the Group's broker channel. AIB, EBS and Haven all offer competitive Green Mortgage products.

Leading Sustainability Agenda
We are committed to supporting our customers in the transition to a low-carbon future while making progress on our own Net Zero ambitions. Along with personal and SME Green Loan products, including mortgages, AIB works with corporate clients on large-scale projects, and has issued €4.25bn in ESG bonds since 2020.

Corporate Focus
AIB supports corporates in their daily banking and funding requirements. While we offer relationship-driven supports to all industry sectors in Ireland, we are focused on mid to large corporates in certain sectors in the UK. Our US team is focused on syndications, with an increasing focus on syndicated renewables finance.

Bespoke Treasury Solutions
AIB provides a range of Treasury services, including foreign exchange, interest rate risk, trade finance and corporate cash management solutions. We regularly undertake and publish economic research to keep our customers and stakeholders informed on the evolving macroeconomic environment.

Wealth & Pensions Management
To support our customers to achieve their financial goals we provide a range of pensions, savings and investment options and advice. With the recent addition of Goodbody to AIB Group and regulatory approval for AIB life, our joint venture with Great-West Lifeco, we expect further growth in this area.

VALUE CREATED IN 2022

€12.6bn
New Lending

€4.6bn
New Mortgage Drawdowns

c. 11k
Homes Under Development

c. 570
Social Homes Funded

€3.3bn
Green & Transition Lending

€10.7m
Community Investment

ECONOMIC & SOCIAL INCLUSION **FUTURE PROOF BUSINESS**

OWN THE OUTCOME **SHOW RESPECT** **BE ONE TEAM**

GROWTH & TRANSFORMATION

In 2022, AIB made significant progress towards completion of a multi-year strategic transformation programme, enabling the Group to deliver on our growth agenda.

	2022 focus	Update
1 CUSTOMER FIRST	DELIVERING FOR CUSTOMER NEEDS ACROSS THE GROUP	• c.450,000 new accounts opened in 2022, a 76% increase on 2021 • €2.1bn of Ulster Bank corporate and commercial loans migrated to AIB; full loan book transfer expected H1 2023 • Agreed acquisition of c. €5.7bn Ulster Bank performing mortgage portfolio with c. 47,000 customers; CCPC clearance received in early January 2023 • Enhanced wealth management proposition: Goodbody integrated; regulatory approval for joint venture with Great-West Lifeco received – available to AIB customer base later this year
2 SIMPLE & EFFICIENT	CUSTOMER & CHANGE DELIVERY, RESILIENCE FOCUS	• Delivered enhanced digital services for customers, including new digital account opening solutions; c. 70% of eligible customers chose to open their new account with AIB digitally • Strategically investing in building our future workforce, including recruitment of over 300 digital, data and change roles, strengthening in-house core capabilities and supporting the delivery of our transformation agenda • Ongoing progress on cyber enhancements and operational capabilities, ensuring our digital services are secure for our customers
3 RISK & CAPITAL	CAPITAL, CREDIT AND LEGACY ITEMS	• Revised medium-term RoTE and absolute cost targets with continued focus on enhancing shareholder value and delivering sustainable returns • Completed a Share Buyback Programme, repurchasing 40.9m ordinary shares for an aggregate of €91m; resumption of capital distribution including payment of ordinary dividend of €122m (4.5c/share) • State shareholding reduced from 71.12% to 56.89% in 2022, as a result of disposals as part of a pre-arranged trading and two share placings in an accelerated book building process to institutional investors • Progress made on legacy items; further reduction of NPEs; conclusion of Tracker Mortgage Enforcement programme; review of Belfry investment funds
4 TALENT & CULTURE	FACILITATING FUTURE OF WORK MODEL; INCLUSION & DIVERSITY	• Flexible hybrid working model implemented, enabled by clear principles, best-in-class technologies, national property footprint and people policies • I&D strategy embedded; 'Investors in Diversity' Gold accreditation • Agreement with Financial Services Union on three-year pay deal and increase in minimum entry salary, providing certainty on pay to March 2025
5 SUSTAINABLE COMMUNITIES	ENVIRONMENT	• Raised €1.5bn in two green bond issuances • 26% of new lending in 2022 was green and transition • Completed emissions reduction target-setting for Corporate loan portfolio; set Financed Emissions Targets for 75% of our loan book • Signed Corporate Power Purchase Agreement (CPPA) with NTR plc to provide 80% of AIB's energy requirements from solar farms
	SOCIAL	• Raised €1bn in the first social bond issuance by an Irish bank • Supported social housing by providing funding of €91m in 2022, representing c. 570 homes • Broadened our human rights due diligence across Corporate and Retail Banking, HR, Risk and Procurement to identify potential 'salient' human rights impacts relevant to the Group for action • Supported 70 local charities in Ireland and the UK through the AIB Community €1 Million Fund • Contributed €500k to the Ukraine Emergency Appeal • Three-year partnership with AsIAm, Ireland's national autism charity
	GOVERNANCE	• AIB ranked in the top 5% of banks globally by Sustainalytics • Maintained Low ESG Risk rating from Sustainalytics (and achieved their 2023 Industry and Region Top Rated badges), AA Leader rating from MSCI and membership of the S&P Global Sustainability Yearbook with a score of 69/100 in their 2022 Corporate Sustainability Assessment • Goodbody now a member of Sustainable Trading, an ESG benchmark in financial markets trading • New ESG Framework to integrate ESG into existing Committees • Experienced and gender balanced Board with appropriate combination of independent skills

Key: Digitalisation Ways of working Sustainability Business model

OUR STRATEGY IN ACTION

CUSTOMER FIRST

Market-leading Mortgages

New mortgage lending across AIB, EBS and Haven totalled €4.6bn in 2022, which was 48% higher than 2021 and driven by strong mortgage lending in Ireland of €4.5bn, up 53% and representing a market share of 32%.

Supporting the Tourism Industry

AIB was the proud sponsor of the Irish Tourism Industry Confederation's (ITIC) conference in April. This was the first major tourism in-person event to take place after Covid-19 and it was attended by leading tourism interests and businesses in Ireland. The theme of the conference was 'A Sustainable Recovery in a Competitive World'.

76%
INCREASE IN NEW ACCOUNTS Vs 2021

Support for Domestic Abuse Survivors

AIB UK is the first UK bank to provide support to existing customers who are domestic abuse victims-survivors disadvantaged due to a poor credit rating. This initiative will help them to obtain lending to start rebuilding their lives.

Record New Accounts

In 2022, we opened a record c. 450,000 new accounts, 76% more than 2021, due to developments in the Irish banking landscape. To meet this challenge, we increased our branch resources and our enhanced digital account opening capacity so that c. 70% of personal customers had the option of opening their account digitally. At the end of 2022, AIB had 3.2 million customers.

Welcoming Ukrainian Customers

We supported the banking needs of people arriving from Ukraine into Ireland by mobilising a task force to anticipate their needs. This resulted in the provision of an account opening guide in Ukrainian and Russian, making remote account opening available to Ukrainian passport holders and enhancing our Direct Helpline to include language support. Over 12,000 accounts for Ukrainian refugees have been opened with AIB.

Backing Green Job Creation

In July, we provided a cornerstone investment of €30m to a new SME fund to back businesses accelerating Ireland's transition towards a low-carbon economy. We appointed Foresight Group to manage the fund, which aims to raise €75m to stimulate job creation and ensure a greener future across the island of Ireland.

MEASURE

CUSTOMER SATISFACTION Transactional Net Promoter Score (NPS)[1]

Measured after customer transactions for key touch points

OUTCOME IN 2022

+39

Customer First is a core pillar of AIB's strategy and we know that we have more to do. We have taken on board our customers' feedback and are committed to enhancing their experience in 2023 and beyond.

TARGET

+53

End 2023

[1] Transactional Net Promoter Score (NPS) is an aggregation of 20 customer journeys across Homes, Personal, SME, Digital, Retail, Direct and Day-to-Day Banking.

SIMPLE & EFFICIENT

Streamlined Credit Decisions
Since the end of March, a streamlined process has been delivering instantaneous credit decisions for c. 50% of SME Credit Card customers, with more than 80% of those customers being auto-approved for their credit card.

INSTANTANEOUS CREDIT DECISIONS ON
c. 50%
OF SME CREDIT CARDS

Valuations, the Simple Way
In June, we launched a new customised technology platform for residential valuations. The solution utilises DocuSign for digital signing of valuation reports, removing paper-based documentation and improving turnaround times.

In-App Charitable Donations
In response to the humanitarian crisis in Ukraine, we launched capability in our Mobile App enabling customers to directly donate €150k to GOAL's Ukraine Emergency Appeal.

Pay a Contact
In February, we launched 'Pay a Contact', which allows customers to instantly transfer money to any other AIB customer using just their mobile number, removing the need for sharing account details such as IBAN for payments. The feature was rolled out to all AIB Mobile App customers, which totalled nearly 1.8m at end-2022.

AIBMS in Croke Park
AIB Merchant Services has installed more than 400 Clover payment devices in Croke Park stadium resulting in faster transactions and shorter queues. Each transaction was upwards of 5 seconds faster at the 2022 All Ireland Football final, leading to a cumulative time saving of 67 hours for fans.

MEASURE

DIGITALLY ACTIVE CUSTOMERS

Number of active customers on digital channels

OUTCOME IN 2022

2.10m

TARGET

>2.25m

End 2023

MEASURE

ABSOLUTE COST BASE[1]

Cost of running the business, excluding exceptional costs

OUTCOME IN 2022

€1.66bn

TARGET

<€1.75bn

In 2024

[1] Before bank levies, regulatory fees and exceptional items. For exceptional items see pages 60 and 69.

RISK & CAPITAL

€4.25bn in Green & Social Bonds

We completed two Green Bond issuances in June and November, each raising €750m, along with a €1bn Social Bond in March. At 31 December 2022, AIB has raised a total of €4.25bn from issuing green and social bonds.

Global Industry Recognition

AIB was included in S&P's Global Sustainability Yearbook 2022, following the Corporate Sustainability Assessment (CSA) of the bank's sustainability performance. Companies in the yearbook must be within the top 15% of their industry and must achieve a score within 30% of their industry's top performing company.

Risk in Conversation

In November, we held our third Risk Awareness Week, inviting employees to take part in events, training sessions and panel discussions all around the theme of risk management. With an extensive and dynamic choice of activities, it was a lively and informative five days.

Returning State's Investment

The State's shareholding in AIB reduced from 71% to just under 57% at 31 December 2022 through a variety of means. This is an important development in the process of returning the State's investment in the Group and a normalisation of the share register.

€1bn

SOCIAL BOND – THE FIRST BY AN IRISH BANK

Quality Loan Book

As at 31 December 2022, 90% of AIB's loan book is of strong or satisfactory quality (up from 87% at 2021 year end). Maintaining the quality of new lending is critical, with >98% of our new lending being of strong or satisfactory credit quality in 2022.

MEASURE

RETURN ON TANGIBLE EQUITY

A measure of how well capital is deployed to generate earnings growth

OUTCOME IN 2022

9.6%

TARGET

>13%

In 2024

MEASURE

CET1 RATIO (FULLY LOADED)[1]

A measure of our ability to withstand financial stress and remain solvent

OUTCOME IN 2022

16.3%

TARGET

>13.5%

End 2024

[1] Excludes the impact of the proposed buyback of €215m, CET1 impact -0.4%.

TALENT & CULTURE

MEASURE

INCLUSION & DIVERSITY

Women as a % of management

OUTCOME IN 2022

GENDER BALANCED[1]

TARGET

GENDER BALANCED

Ongoing

Backing our People

In 2022, we supported our employees with the cost of living challenges with a once-off award of up to €1,000 through our internal recognition programme, Appreciate. We were recognised by LinkedIn in 2022 as one of the top 25 workplaces to grow your career in Ireland. And 77% of colleagues were satisfied with AIB as a place to work, in our most recent engagement survey.

Supporting Family Life

In October, AIB extended our Parents Leave, offering a total of seven weeks' fully paid leave for both parents during the first two years of a child's life. In addition to this market-leading approach, we also formally introduced Fertility Leave, Compassionate Leave for pregnancy loss and Surrogacy Leave.

1,000

MENTAL HEALTH ADVOCATES TRAINED

Increasing our Early Talent Pipeline

At the 2022 gradireland Graduate Recruitment Awards, AIB was voted the Most Popular Graduate Recruiter in Banking, Investment and Financial Services, for the third year in a row.
In September, we established the AIB Apprenticeship Programme, welcoming 25 apprentices across Ireland and the UK.

A Safe and Supportive Working Environment

AIB has an always-on commitment to promoting good mental health through our programmes such as Time to Talk and Time to Text. In September, we marked a milestone of 1,000 Mental Health Advocates who have completed accredited mental health training in order to provide support to their colleagues. Modules on mental health are also included in our Leadership Development programmes.
We also enhanced our existing supports for employees experiencing domestic violence, including additional paid leave and access to counselling services.

Inclusion and Diversity (I&D)

We continued our commitment to Inclusion and Diversity with the launch of our new I&D strategy in Q1 2022. This included enterprise-wide universal inclusion campaigns, partnerships with external organisations, progressive policies, diversification of our recruitment practices and mandatory I&D training for all employees. During the year, AIB was an early signatory of Ireland’s first Women in Finance Charter.

77%

OF COLLEAGUES SATISFIED WITH AIB AS A PLACE TO WORK

Trinity Centre for People with Intellectual Disabilities (TCPID)

AIB signed a new three-year partnership with the Trinity Centre for People with Intellectual Disabilities and commenced the first ever placement from the programme in 2022 with AIB.

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1. The Equileap annual Gender Equality Global Report & Ranking equates 'gender balanced' with between 40% and 60% women

SUSTAINABLE COMMUNITIES

Backed by Renewable Power

In October, we appointed NTR plc for the development of a Corporate Power Purchase Agreement (CPPA) to source energy generated from two dedicated solar farms to be constructed in Co. Wexford. We aim to source 100% of our power requirements from certified renewable energy sources by 2030.

€1 Million for 70 Causes

In May, we launched our first AIB Community €1 Million Fund, supporting 70 charities in Ireland and the UK. We asked our customers, the public and our employees to nominate charities that matter most to them in their communities. You can see the full list of charities supported by the Fund at aib.ie/community

145 GOAL Miles

Communities across Ireland came together to raise €420k as part of the 2022 GOAL Mile, proudly supported by AIB. Over 145 GOAL Miles took place across Ireland with 25,000 participants in total, resulting in the highest number of GOAL Miles in Ireland to date.

Energy Efficiency for SMEs

In September, we launched an Energy Efficiency Loan scheme, making €70m available to help eligible SMEs and farmers cut their energy bills and reduce their carbon emissions by investing in energy-saving measures.

Responding to Crisis

AIB Group committed €500k for the Ukraine Emergency Appeal; €250k to GOAL for urgent, on-the-ground humanitarian aid and €250k to the Irish Refugee Council. In February, AIB employees donated over €91k through our Payzone platform which was doubled through AIB Matched Funding.

Inclusive Working

In partnership with Cork City Council and the Open Doors Initiative, AIB supported the opening of Ireland's first Inclusive Working Hub in Cork called the The Impact Hub@Crann. The Hub will enable people with disabilities to better participate in employment and create business and job opportunities.

MEASURE

REDUCTION IN OPERATIONAL EMISSIONS

% reduction in Scope 1 & 2 emissions year-on-year

OUTCOME IN 2022

10%

TARGET

NET ZERO BY 2030 (OWN OPERATIONS)

MEASURE

GREEN FINANCE

Amount of new lending per year for climate action

OUTCOME IN 2022

€3.3bn

TARGET

€2bn per year

OUR APPROACH TO RISK

Our risk framework supports the Group in achieving our strategic objectives, protects our customers and enables us to identify opportunities to grow our business safely.

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

Strategy

1. The Board has ultimate responsibility for the governance of all risk taking activity in the Group and risks assumed through our investments in joint ventures.
2. The Group has adopted a three lines of defence (3LOD) model and risks are managed in line with the model.

Identification and assessment

3. The Group identifies, assesses and reports all material risks through the Material Risk Assessment process.
4. Risk management is embedded in the strategic planning, performance management and strategic decision making processes of the Group.
5. The Group develops and uses models across a range of risks and activities to inform key strategic business and financial decisions.
6. The Group accepts that certain additional measured risks may be taken across the short to medium term to support environmental, social and governance (ESG) initiatives for the benefit of all stakeholders over the long term.

Monitoring, escalating and reporting

7. The Group operates and manages risks in line with the Group's Risk Appetite Statement (RAS).
8. The Group understands, manages, measures, monitors and reports all risks it takes or originates.
9. The Group aims to provide clarity in all communications which will help to better inform business decisions.

Risk culture

10. The Group supports the delivery of a strong risk culture.
11. Risk management capabilities are valued, encouraged and developed.

Control environment

12. The Group has in place a system of internal control designed to mitigate rather than eliminate risk.
13. A comprehensive, fit-for-purpose framework and policy architecture is in place to support risk management and is reviewed regularly.

The Risk Management section, from pages 130 to 208 gives more detail on how risk is managed within the Group.

The Group's Risk Management Framework (RMF) supports our business activities and the delivery of our strategies by setting out how we mitigate and manage risk. It outlines how we identify, monitor and escalate risk issues, and provides clarity on the risk governance structures to ensure accountability for each material risk facing the Group.

In 2022, reflecting the importance of sustainability, a new principle around ESG initiatives (number six) was approved in the RMF and is supported by the new ESG Framework. The Group continues to embed ESG considerations into its lending and investment processes.

A key part of our RMF is the identification of emerging risk drivers as part of the Group's material risk assessment, which are described on page 26. Our emerging risks continued to evolve at a fast pace during 2022.

The Group's view of the principal risks it faces are described on page 23 to 25. The RMF is subject to annual review and approval by the Board, as recommended by the Board Risk Committee (BRC).

Risk performance is measured against the Group's risk appetite on a monthly basis. Risks to future performance are assessed by conducting forward looking stress tests and scenario analysis, the results of which are considered regularly by both Management and the Board. The Group's consideration of viability and going concern are set out on pages 121 and 122 respectively.

PRINCIPAL RISKS

Principal risks are those risks that could have a material adverse effect on our customers or the financial or operational outcomes or reputational standing of the Group.

Principal risks and uncertainties are identified by the Group's on-going risk management practices as well as the Material Risk Assessment (MRA) process. The Group considers risks that arise from the impact of external market developments, geopolitical events or other emerging risks which could potentially impact on our customers, earnings, capital and liquidity, as well as on our operations or reputation. Each of the principal risks is assigned a first and second line accountable executive who regularly report on, and manage, the risk.

ESG risks continue to be identified as key risk drivers impacting all of the Group's principal risks, especially Credit Risk.

A. BUSINESS MODEL RISK

WHAT IS THE RISK?

The risk of not achieving the agreed strategy or approved business plan, for example as a result of an inadequate implementation plan, or failure to execute the implementation plan as a result of the inability to secure the required investment. This also includes the risk of implementing an unsuitable strategy or maintaining an obsolete business model in light of known internal and external factors.

HOW WE RESPONDED IN 2022

The risk assessment of the potential acquisitions (i.e. Ulster Bank portfolios) and their impact on the Group's risk profile continued to be a key focus in 2022. Risk introduced a new strategic investment policy to formalise our approach to assessing strategic investment opportunities. The impact of rising rates and inflation on the Group's risk profile has been central to our risk oversight and in our review and challenge of the financial plan and associated stress tests. As interest rates rise, we continued our focus on product pricing strategies and risk adjusted returns on capital (RAROC).

KEY RISK INDICATORS

- Operating Profit (before exceptional charges)
- Risk Adjusted Return on Capital (RAROC)

→ **Read more:** page 202

B. CREDIT RISK

WHAT IS THE RISK?

The risk that the Group will incur losses as a result of a customer or counterparty being unable or unwilling to meet contractual obligations and associated credit exposure in respect of loans or other financial transactions.

HOW WE RESPONDED IN 2022

Our credit portfolio continued to recover strongly as the economic threat from COVID-19 receded during 2022. We are closely monitoring risk arising from the macroeconomic environment, notably energy-driven inflation, supply chain challenges, rising interest rates and further weakening of the UK economy. Our credit risk management principles provide the foundation for through-the-cycle credit management with a number of credit approval metric updates to reflect the current environment. Our Expected Credit Losses (ECLs) reflect our comprehensive approach to assessing the credit environment, ensuring the level of ECL stock remains appropriate. We remain proactive in adapting credit risk management processes and policies to capture ESG risks. Migration of the Ulster Bank portfolio of corporate and commercial loans has progressed on a phased basis throughout the year and has been subject to the appropriate credit review and grading processes. Migration is expected to conclude by mid-2023.

KEY RISK INDICATORS

- Non-Performing Exposures (NPEs) outstanding as % of customer loans
- Migration to Stage 2 and Stage 3

→ **Read more:** page 134 to 187

Link to strategy:

Customer first | Simple & efficient | Risk & capital | Talent & culture | Sustainable communities

PRINCIPAL RISKS CONTINUED

C. OPERATIONAL RISK

WHAT IS THE RISK?

The risk arising from inadequate or failed internal processes, people and systems, or from external events. This includes legal risk, but excludes strategic and reputational risk.

HOW WE RESPONDED IN 2022

2022 brought a heightened focus and challenge on key areas of operational risk in the current environment, namely cyber and information security risk, change risk, operational resilience, third party management and technology-related risk. The key areas of focus included ongoing oversight, review and challenge of the transformation agenda, a refreshed operational risk assessment and risk-integrated cyber strategy in response to the evolving external threats, prioritisation of sustainment and operational resilience and enhanced oversight of third party service providers to drive improved resilience. Progress has been made to reinforce strong operational risk practices, through the provision of in-house online courses and initiatives such as Risk in Conversation Week.

KEY RISK INDICATORS

- Cumulative operational risk losses
- Cyber security metric

→ **Read more:** page 202 to 203

D. CONDUCT RISK

WHAT IS THE RISK?

The risk that inappropriate actions or inactions by the Group cause poor or unfair customer outcomes or negatively impact market integrity.

HOW WE RESPONDED IN 2022

In 2022, we focused on the progression of a number of strategic and regulatory initiatives including the oversight of our new customers from Ulster Bank and KBC and prioritising our supports available to vulnerable customers due to the cost of living challenges and increased interest rates. Conduct Risk continues to be a primary area of focus for the Group and progress has been noted in terms of conduct risk management, business engagement and meeting Central Bank's focus on the Group's operational resilience to ensure consumer protection is at the forefront of decision making. During 2022, the Group progressed a series of conduct milestones including the completion of the tracker mortgage examination, the commencement of customer migration from Ulster Bank and KBC and the redress for customers resulting from the Belfry programme.

KEY RISK INDICATORS

- Number of complaints and time taken to resolve
- Number of overdue product reviews

→ **Read more:** page 203 to 204

E. REGULATORY COMPLIANCE RISK

WHAT IS THE RISK?

The risk of legal or regulatory sanctions, material financial loss, or loss to reputation which the Group may suffer as a result of a failure to comply with principal laws, regulations, rules, related self-regulatory codes and related supervisory expectations which relate to the Group's regulated banking and financial service activities, i.e. those activities in which the Group is licensed to conduct business.

HOW WE RESPONDED IN 2022

During 2022, the Compliance function provided risk oversight across strategic growth and regulatory initiatives, including the integration of Goodbody, the acquisition of the Ulster Bank corporate and commercial loans, the new joint venture between the Group and Great-West Lifeco. and the opening of accounts for new customers from KBC and Ulster Bank. In respect of the overall management of regulatory compliance risk within the Group, positive engagement with the business was evident on the Group's management of regulatory change, such as the EBA Loan Origination and Monitoring programme making significant progress in meeting regulatory obligations, and the mobilisation of major programmes to implement Basel IV and Individual Accountability Framework. The Group swiftly applied new sanction requirements as new sanction regimes were rolled out in different jurisdictions.

KEY RISK INDICATORS

- Number of data protection incidents
- Number of suspicious transactions reported within 30 days

→ **Read more:** page 204 to 205

F. PEOPLE AND CULTURE RISK

WHAT IS THE RISK?

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

HOW WE RESPONDED IN 2022

The Group has a number of defined strategic initiatives and programmes of work underway, such as wellbeing and engagement, retention and attractiveness strategies, and our workforce planning support to adapt to new ways of working. There has also been significant investment in terms of developing capabilities across the Group, including running a number of Leadership Development programmes during the year. Several progressive family leave policies have been introduced such as surrogacy, fertility treatment and pregnancy loss to support our people through difficult times. We continue on our culture development journey and much progress has been made including significant enhancements to our wellbeing, engagement and inclusion and diversity (I&D) strategies and reinforcement of our Speak Up process.

KEY RISK INDICATORS

- Attrition of top performers
- Completion of mandatory courses

→ **Read more:** page 205 to 206

Link to strategy:

Customer first · Simple & efficient · Risk & capital · Talent & culture · Sustainable communities

G. CAPITAL ADEQUACY RISK

WHAT IS THE RISK?

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

HOW WE RESPONDED IN 2022

Our ongoing stress-testing activity in 2022 continued to demonstrate the robustness of the Group's capital position. A range of scenarios and risks were considered including Covid-19 and the withdrawal of government supports, the impact of the Ukraine crisis, supply chain challenges, rising energy costs, potential gas supply shortages and cost of living impacts from rising inflation and higher interest rates. Our Internal Capital Adequacy Assessment Process (ICAAP) continues to be used in the assessment of acquisitions, in addition to the assessment of proposed dividends and buybacks, to ensure that they are sustainable from a capital perspective. Our approach to climate stress testing continues to develop and we participated in the inaugural ECB Climate Stress Tests in 2022. We continue to review our capital risk appetite considering changes to regulatory capital requirements, outcomes from our stress testing and internal capital models and our assessment of the prevailing risk.

KEY RISK INDICATORS

- Fully Loaded CET1 ratio
- Fully Loaded Total Capital Ratio
- Fully Loaded Internal Capital Buffer

→ **Read more:** page 206

H. MODEL RISK

WHAT IS THE RISK?

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

HOW WE RESPONDED IN 2022

Improvements in the control environment and model monitoring along with approved expansion of monitoring standards and the migration of the model inventory to a more robust platform were key delivery items across Model Risk in the last year. In the second half of the year, an enhanced Internal Rating Based (IRB) rollout plan was approved by the Board. The plan incorporates an acceleration of the rollout of IRB models to material portfolios which aims to deliver broad benefits, spanning regulatory compliance, capital management, enhanced business decision making and operational benefits through streamlining and automation opportunities. The IRB Mortgage and SME models have been submitted to the regulator and formal approval is awaited prior to implementation.

KEY RISK INDICATORS

- Quarterly risk assessment of approved models in use

→ **Read more:** page 207

I. LIQUIDITY AND FUNDING RISK

WHAT IS THE RISK?

The risk that the Group will not be able to fund our assets and meet our obligations as they come due, without incurring unacceptable costs or losses. Funding is the means by which liquidity is generated, e.g. secured or unsecured, corporate or retail. In this respect, Funding Risk is the risk that liquidity cannot be obtained at an acceptable cost.

HOW WE RESPONDED IN 2022

Customer deposits have continued to grow, reflecting inflows from former Ulster Bank and KBC customers transferring to the Group and from higher income and employment levels in the Irish economy generally. There has also been an increase in precautionary saving due to the heightened economic uncertainty and increasing inflationary pressures. This has contributed to high volumes of excess liquidity held with the Central Bank of Ireland (CBI). The higher interest rate environment, facilitated the introduction of a new one-year interest bearing fixed term deposit. In addition, we reduced our central bank funding accumulated via the third series of targeted longer-term refinancing operations (TLTRO III), the Group repaid €10bn in December 2022.

KEY RISK INDICATORS

- Liquidity Coverage Ratio (LCR)
- Survival Period
- Net Stable Funding Ratio (NSFR)

→ **Read more:** page 188 to 194

J. FINANCIAL RISK

WHAT IS THE RISK?

The uncertainty of 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 Group.

HOW WE RESPONDED IN 2022

Rising inflation led to sharp interest rate hikes and increased market volatility as the period of low-to-negative interest rates and central bank stimulus programmes came to an end. The Group responded by adapting our interest rate hedging strategy to stabilise our exposure to market volatility, in particular as it related to net interest income (NII).

KEY RISK INDICATORS

- Earnings Sensitivity
- Interest Rate Capital at Risk (CaR)

→ **Read more:** page 195 to 201

Link to strategy:

Customer first | Simple & efficient | Risk & capital | Talent & culture | Sustainable communities

EMERGING RISKS AND UNCERTAINTIES

The Group identifies emerging risks that have the potential to increase in significance which could have a material impact on the Group's strategy, operations and on our customers over the medium to long term. The below sets out the top emerging risks identified as part of the Group's Material Risk Assessment which continued to evolve during the year.

Emerging risk	How we respond	Links to principal risks on pages 23 to 25	Trend 2022
Environmental, Social and Governance (ESG) Risks: The risk of any negative financial or non-financial (e.g. reputational) impact on the Group stemming from current or prospective impacts of ESG factors on its lending or invested assets.	• The Board approved a new Environmental, Social & Governance Framework in December 2022 to strengthen the accountability for ESG at all levels of the Group, supporting the sustainability agenda for our customers, society and communities. • The Group's Risk Management Framework incorporates ESG requirements and climate risk has been identified as a key risk driver for each material risk. • During 2022, the Board approved a new climate risk exposure metric within the Group's Risk Appetite Statement. • Updated qualitative statements for climate risk have been approved to guide our green and climate lending to customers. We will continue to refine and enhance these statements in line with evolving best practice and data analysis. • We raised €1bn through the issuance of a social bond and €1.5bn through the issuance of two green bonds in 2022; we have raised a total of €3.25bn in green bonds to date. • The Group participated in the ECB's first European-wide Climate Stress Test in 2022 as set out on pages 37 and 38.	A B C D E F G H I J	**Increasing**
Cost of Living and Inflationary Pressures: The risk of increases in the price of goods and services, arising from energy costs, supply chain constraints or other sources that have a negative impact on our customers' ability to meet their loan obligation.	• The Group's credit risk principles govern a series of risk management activities across the first and second line to ensure timely, appropriate and customer-focused actions. • The Group's underwriting criteria for new lending was amended where appropriate, based on the risk insights of the portfolio assessments along with analysis of prevailing economic conditions. • A series of assessments across the portfolios was undertaken to identify the sectors impacted by the higher energy costs, supply chain challenges, labour costs, inflationary pressures and rising interest rates. • We use a system of Early Warning Indicators (EWIs) to appropriately manage higher risk sectors through the Sector Risk Assessment Forum. • We support our customers on a case-by-case basis through affordable, fair and sustainable solutions.	A B H I J	**Increasing**
Unexpected Macroeconomic Changes and Geopolitical Risks: The risk that a macroeconomic downturn, such as a market shock and geopolitical risks, could negatively impact the Group's revenues, ability to raise capital, or result in other financial impacts.	• The Group commenced and maintained a Risk Working Group through 2022 to ensure that any potential issues from the Ukraine conflict were closely reviewed and managed. • We updated the Group's credit application guidelines to assess any direct or indirect impacts of the Ukraine crisis. • The Group's capital adequacy and liquidity are reviewed regularly through the governance committees ensuring compliance with risk appetite and regulatory requirements. • The Group applied new sanction requirements as these were implemented in various jurisdictions. • The Group identifies economic headwinds and geopolitical risks on at least a quarterly basis, through financial planning and ongoing stress testing activity. These risks are considered under a range of alternate scenarios. This ensures that the approved financial plan is supported by a robust capital plan and assessment of the risks, and is aligned with our risk appetite.	A B I	**Increasing**
Cyber Attacks: The risk of diminished operational capability of the Group's systems and customer data risk exposures. In addition, the potential for legal liability or loss of reputation with our customers due to an evolving cyber threat landscape and heightened threats associated with cyber criminals and rogue nation states.	• The Group ensures that our proactive threat intelligence capability, including active engagement with law enforcement agencies, coupled with an industry-leading practice cyber risk programme, continually drives a defence in-depth approach to the protection of confidential data and the availability of vital business services. • A Group user awareness programme is in place including mandatory cyber training for all employees, education communications on potential internal and external threats, frequent phishing testing and reporting facilities for suspicious activities. • The Board receives quarterly cyber updates, annual cyber training, and has been involved in cyber attack simulations to help identify vulnerabilities and inform an understanding of the overall resilience of the cyber ecosystem. • Cyber risk is governed, challenged and reviewed on an ongoing basis, through senior organisational risk forums.	A C D H I	**Stable**

SUSTAINABILITY IN AIB

OUR APPROACH TO DISCLOSURES

We outline our approach to mandatory and voluntary corporate disclosures across four reporting frameworks, further details of which can be found on pages 30 to 54 of the following ESG Disclosures section. More can be found in our Sustainability Report 2022.

As a recognised leader of the sustainability agenda in Ireland and through our Pledge to Do More, we are committed to building long-term resilience and sustainability for our business, the economy and society.

Developing a sustainability culture and Group-wide processes that enable us to cascade and embed our agenda across our business and stakeholders is paramount to helping the Group achieve our ambitions and targets. It is also integral to supporting our customers in the transition to a low-carbon future. Our Group sustainability strategy is overseen by the Sustainable Business Advisory Committee (SBAC), which was established in 2016. In 2020, Sustainable Communities became a fifth pillar of our Group strategy, embedding sustainability from Board level right throughout the business.

Progress on our Group sustainability agenda is assessed against our Sustainable Communities pillar with a focus on three areas:

- Climate & Environment;
- Economic & Social Inclusion; and
- Future Proof Business.

Our priorities for each area are the result of extensive stakeholder engagement, including an independent bi-annual materiality and evaluation process.

At AIB, we believe climate change poses a systemic challenge to long-term sustainability and consequently we have positioned climate action as our most urgent responsibility. We have a clear ambition for 70% of our new lending to be green or transition by 2030. We have set ourselves a target to achieve Net Zero in our financed emissions by 2040 for our full lending portfolio (excluding agriculture, which will be by 2050) in line with the Irish government's Climate Action Plan. We also have a target of becoming Net Zero in our own operations by 2030. Our ambitions more widely include social housing, where we have set a target to deliver €800m in lending approvals by 2024.

With key ambitions and targets set across our sustainability agenda, our focus is on implementation and delivery, including investing in our corporate sustainability reporting and meeting disclosure obligations. We believe transparency is at the heart of corporate sustainability, and in this section we demonstrate our commitment to principles of openness and accountability through the publication of a range of non-financial corporate sustainability and ESG disclosures.

These disclosures provide a basis for us to consider our commitments, while also imposing additional discipline on the Group to make further progress and to use our influence to advocate for sustainability across our range of stakeholders.

Our mandatory non-financial reporting disclosures are comprised of Task Force on Climate-related Financial Disclosures (TCFD), the EU Taxonomy and the Non-Financial Reporting Directive (NFRD).

In 2019, we became the first Irish bank and one of the first Irish companies to become an official supporter of the **Task Force on Climate-related Financial Disclosures**. Our disclosures to TCFD, which are on pages 30 to 41, are made through its four areas of focus: Governance, Strategy, Risk Management and Metrics & Targets.

This is our second disclosure to the **EU Taxonomy**, which is on pages 42 to 43, following its introduction for certain companies last year. It provides a classification system of sustainable activities across climate and environmental objectives.

Meanwhile, our Non-Financial Information Statement, a requirement under the **Non-Financial Reporting Directive**, is on pages 44 to 47 and provides disclosed information on policies and codes across four prescribed areas of Environmental Matters, Social & Employee Matters, Respect for Human Rights, and Anti-Bribery & Corruption.

In 2021, we became the first Irish company to adopt the **World Economic Forum (WEF) Stakeholder Capitalism Metrics**. This is a voluntary universal framework providing a common approach by which AIB's sustainability disclosures can be measured and compared with peers globally from all sectors, including financial services. Our disclosures are on pages 48 to 54, and are made through the lens of AIB's three areas of focus aligned to WEF's Planet (Climate & Environment), Prosperity (Economic & Social Inclusion), People and Principles of Governance (Future Proof Business).

→ Further detail on these four reporting frameworks are in the following ESG Disclosures section of this report. Additional information can also be found in our Sustainability Report 2022. See www.aib.ie/sustainability

DELIVERING
ON OUR PLEDGE
TO DO MORE

AIB

SUSTAINABILITY IN AIB – TARGETS & PROGRESS

CLIMATE & ENVIRONMENT

We're actively integrating risks and opportunities relating to climate change into our business to accelerate our understanding, strengthen our strategy and clarify our actions. We're reducing our own carbon footprint and commit to being Net Zero by 2030. We're supporting our customers and communities in their transition to a low-carbon economy with an ambition that green and transition products will account for 70% of all our new lending by 2030.

Targets	2022 Performance
2023 **€10BN** **CLIMATE ACTION FUND** IN NEW GREEN & TRANSITION LENDING **(€2BN PER YEAR)**	**€7.9BN** GREEN LENDING SINCE 2019 **€3.3BN** GREEN LENDING IN 2022
2030 **NET ZERO** IN OUR OPERATIONS AMBITION OF 70% OF NEW LENDING TO BE GREEN	**10%** **REDUCTION IN OPERATIONAL EMISSIONS**[2] IN 2022 40% REDUCTION SINCE 2019 **26% OF NEW LENDING** WAS GREEN
2040 **NET ZERO AMBITION** CUSTOMER PORTFOLIO LENDING (AGRI 2050)	**FINANCED EMISSIONS TARGETS SET** FOR 75% OF LOAN BOOK[3]

Priorities for 2023

- Continue to support all AIB customers in the transition to a low-carbon future through product and proposition development and engagement
- Complete the energisation of our Corporate Power Purchase Agreement with NTR plc, with energy generation due to commence in autumn 2023
- Continue to execute AIB operational emissions reduction programme
- Ongoing focus on embedding climate risk management into the business

ECONOMIC & SOCIAL INCLUSION

We recognise the responsibility that comes with the scale and impact of our business. We aspire to contribute and advocate for a fairer society that is socially and economically inclusive. We do this by investing and raising awareness in access, education and innovation for our customers, our colleagues and our communities.

Targets	2022 Performance
2024 **€800M** **FINANCE FOR SOCIAL HOUSING**	**€437M** **ALLOCATED AGAINST TARGET** SINCE 2020 €91M IN 2022
2023 **500K** **CUSTOMERS SUPPORTED** FINANCIAL LITERACY	**341K** **SECONDARY SCHOOLS** PROGRAMME SINCE 2021
ONGOING **AIB IN OUR COMMUNITY** ONGOING STRATEGIC FOCUS	**€10.7M** **SUPPORTING** COMMUNITY CAUSES IN 2022

Priorities for 2023

- Deliver further progress towards our 2024 target for social housing construction
- Deepen our community support through the AIB Community €1 Million Fund and partnerships, including TASC, GOAL and FoodCloud
- Continue progress to embed identified AIB salient human rights impacts into relevant processes
- Enhance focus on the delivery of financial literacy through current customer activities

FUTURE PROOF BUSINESS

Our future sustainability depends on our ongoing investment in our business, people and processes. We want to give our customers the best possible banking experience – we're always learning and improving. In an increasingly digitalised world, we are focused on keeping our systems resilient and our data secure.

Targets	2022 Performance
2023 **+53** **TRANSACTIONAL NPS**[1]	**+39** **TRANSACTIONAL NPS (2022)**
2023 **>2.25M** **DIGITALLY ACTIVE** CUSTOMERS	**2.1M** **DIGITALLY ACTIVE** CUSTOMERS
ONGOING **GENDER BALANCED**[4] MANAGEMENT	**GENDER BALANCE MAINTAINED**

Priorities for 2023

- Deliver enhanced banking experiences, focusing on priority customer journeys
- Continue to embed Inclusion & Diversity through enterprise-wide campaigns, and partnerships including Open Doors and AsIAm
- Ongoing focus on compliance for incoming cyber legislation (DORA)
- Continued focus on gender balance throughout the organisation
- Ongoing focus on ESG governance

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1. Transactional Net Promoter Score (NPS) is an aggregation of 20 customer journeys across Homes, Personal, SME, Digital, Retail, Direct and Day-to-Day Banking
2. Absolute Scope 1 & 2 GHG emissions
3. As at 31 December 2021
4. The Equileap annual Gender Equality Global Report & Ranking equates 'gender balanced' with between 40% and 60% women

ESG DISCLOSURES

ESG Disclosures within this Annual Financial Report

	Page
Task Force on Climate-related Financial Disclosures	30
EU Taxonomy	42
Non-Financial Information Statement	44
WEF Stakeholder Capitalism Metrics	48

Further disclosures are contained within our Sustainability Report 2022, which highlights the progress we are making against our strategy and commitments.

→ Read more on aib.ie/sustainability

OUR TCFD DISCLOSURES

In 2019, AIB was the first Irish bank, and one of the first Irish companies, to become an official supporter of the Task Force on Climate-Related Financial Disclosures (TCFD), supporting stakeholders to identify and assess our climate risks and opportunities. We are reporting to the TCFD framework in the following pages.

TCFD recommendation		Where in our disclosures is this addressed?
Governance	Board's oversight of climate-related risks and opportunities	→ page 30
	Management's role in assessing and managing climate-related risks and opportunities	→ page 31
Strategy	Climate-related risks and opportunities (short, medium and long term)	→ page 32
	Impact of climate-related risks and opportunities on business, strategy and financial planning	→ page 35
	Resilience of strategy, considering different climate-related scenarios, including a 2C or lower scenario	→ page 36
Risk management	Processes for identifying and assessing climate-related risks	→ page 37
	Processes for managing climate-related risks	→ page 37
	Integration of processes for identifying, assessing and managing climate-related risks into overall risk management	→ page 38
Metrics and targets	Metrics to assess climate-related risks and opportunities in line with strategy and risk management process	→ page 39
	Scope 1, 2 and 3 GHG emissions and the related risks	→ page 41
	Targets used to manage climate-related risks and opportunities and performance against targets	→ page 41

GOVERNANCE

TCFD recommendation: AIB's governance around climate-related risks and opportunities.

a. Board's oversight of climate-related risks and opportunities.

Board

The Board is responsible for promoting the long-term sustainable performance of the Group, setting the Group's strategic aims and risk appetite to support the strategy.
The Board is responsible for approving the Group's strategic plans (including divestments and acquisitions), capital investment and financial plans which includes the consideration of ESG and climate factors. These strategic considerations are expressed in the Sustainable Communities pillar of the Group strategy, where Sustainability is a fifth Pillar.
The Board is responsible for the approval of the Sustainability Report and considers the sustainability targets for the Group. The Board ensures that an appropriate system of internal controls is maintained and appointed the Sustainable Business Advisory Committee (SBAC) to assist it in fulfilling its independent oversight responsibilities in relation to ESG matters. The Board receives updates regarding the execution of the Group's sustainability strategy, including the quarterly Group Balanced Scorecard, bi-annual sustainability updates and both the green bond and social bond transactions.

Sustainable Business Advisory Committee (SBAC)

The SBAC oversees the Group's performance as a sustainable business and delivery of AIB's sustainability strategy and is the overarching Board Advisory Committee responsible for the guidance of our sustainability agenda. The SBAC is chaired by an independent Non-Executive Director of AIB Group and membership includes three other independent Non-Executive Directors. It also includes members of the Executive Committee.
To ensure ongoing awareness of the work of the Committee by all Directors, the Committee Chair provides an update to the Board following each meeting on the key items discussed and considered by the Committee. The Committee meets at least four times in every year and also convenes at regular intervals for ESG training. Its responsibilities include:

- Supporting the Board in the execution of the Group's sustainability strategy in accordance with the approved Group Strategic and Financial Plan; and,
- Overseeing the external reporting of the Group's sustainability strategy including objectives, policies, measures and progress of implementation as well as review and challenge the Group's Sustainability Report for onward recommendation to the Board for approval.

Board Risk Committee (BRC)
As part of discharging its overall responsibilities, BRC ensures that risks within the Group are appropriately identified, reported, assessed, managed and controlled including commission, receipt and consideration of reports on key strategic and operational risk issues. The BRC receives updates regarding the effectiveness of the Group's policies and programmes, which relate to identifying, managing and mitigating ESG risks, including climate risk, in connection with the Group's operations and ensuring compliance with regulatory requirements and industry standards.

Board Audit Committee (BAC)
The BAC assists and advises the Board in fulfilling its independent oversight responsibilities in relation to:

- The quality and integrity of the Group's accounting policies, financial and narrative reporting, non-financial disclosures and disclosure practices;
- The effectiveness of the Group's internal control, risk management, and accounting and financial reporting systems;
- The independence and performance of the internal and external auditors; and,
- The role of the BAC with regard to the review of certain additional non-financial disclosures included in the Annual Financial Report has been clarified, with the BAC undertaking a detailed review of the disclosures contained in this Annual Financial Report.

2022 Climate-related Activities
Given the continued evolution of the ESG agenda, a detailed review of the approach to governance and oversight of ESG was completed as part of the new ESG Framework with the Chairs of SBAC, BAC and BRC to support enhanced evidencing of decision-making and ownership of ESG matters at Board level. As of 1 January 2023 a BAC member joined the SBAC and cross membership already exists between the BRC and the SBAC.

The Committees' terms of reference were updated to align to this position in December 2022. To ensure ongoing awareness of the work of the Committee by all Directors, the Committee Chairs provide an update to the Board following each meeting on the key items discussed and considered by the Committee. In 2022, topics presented to one or more of Board, BRC and SBAC:

- The Board approved the Group Risk Appetite Statement (RAS) 2023 which included specific ESG-related qualitative statements;
- The BRC was updated on the outputs of initial climate risk quantification covering transition risks for high risk sector and physical flood risk;
- The BRC also received an update on green lending;
- The SBAC and Board reviewed and challenged the sustainability strategy as part of the wider Group strategy process and were updated on Financed Emissions Targets;
- The SBAC also reviewed and challenged the progress in achieving our sustainability targets;
- The SBAC reviewed the ESG Framework, which was approved by the Board on the basis of the recommendation of the BRC;
- The SBAC was updated on the climate risk stress tests, regulatory expectations, supplier risk management as well as AIB's own environmental footprint;
- The SBAC was provided with updates on sustainability propositions development status and propositions plan including peer reviews; and,
- SBAC was updated on investor views.

In continuing to build on their climate-related expertise, our Board participated in sustainability regulatory training, as well as two thought leadership events led by industry experts in the area of climate risk and climate policy in the financial sector.

b. Management's role in assessing and managing climate-related risks and opportunities.

Executive Committee (ExCo)
The ExCo is the most senior management committee of the Group and is accountable to the CEO. Subject to financial and risk limits set by the Board and excluding those matters that are reserved specifically for the Board, the ExCo, under the stewardship of the CEO, has responsibility for the day-to-day management of the Group's operations. For ESG matters the ExCo is supported by the following committees

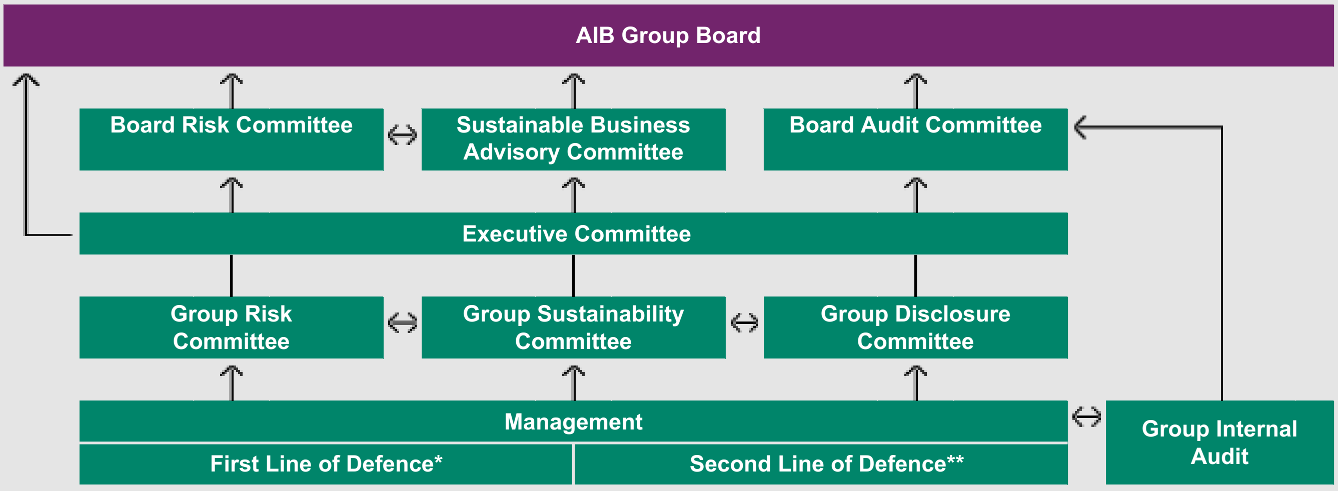
Group Sustainability Committee (GSC)
The GSC is a sub-committee of, and comprises members of, the ExCo in addition to some senior stakeholders from across the business. It is tasked with approval and oversight of aspects of the Group's sustainability strategy, including ESG activities, and how the Group responds to our ESG commitments. A key role of the committee is to review and assess current and emerging ESG risks, evolving with our ESG Framework and trends that may materially affect the business, operations, performance, or reputation of the Group, and make recommendations to the SBAC on any matters requiring escalation, with interaction with the Group Risk Committee (GRC) on relevant matters. The GSC is chaired by the Chief Sustainability & Corporate Affairs Officer who is the Group's executive sponsor for sustainability. Its responsibilities include:

- Overseeing the development and implementation of the Group's sustainability strategy;
- Reviewing and assessing current and emerging ESG risks and trends that may materially affect the business, operations, performance or reputation of the Group;
- Monitoring performance and progress on the Group's objectives, goals, initiatives and activities relating to ESG activities and the overall sustainability agenda;
- Reviewing and monitoring compliance with relevant policies, targets and metrics;
- Overseeing internal and external communications and engagement with stakeholders regarding the Group's position on or approach to ESG matters as appropriate in relation to all material public and non-public disclosures related to sustainability/ESG matters, including the Group's Sustainability Report;
- Monitoring compliance with sustainability and ESG laws, regulations and guidelines and providing oversight of any sustainability-driven regulatory change including effective fulfilment of regulatory obligations and reporting;
- Reviewing the Group's relationships with key sustainability and ESG stakeholders including sustainability assessment bodies; and,
- Considering and providing input on the design principles and features of green products to ensure consistency and alignment to the Group's ESG and sustainability agenda.

Group Risk Committee (GRC)
As part of its overall responsibilities, the GRC receives updates regarding the effectiveness of the Group's policies and programmes that relate to identifying, managing and mitigating ESG risks, including climate risk and financial risk, in connection with the Group's operations, and ensuring compliance with regulatory requirements and industry standards.

Group Disclosure Committee (GDC)
In discharging its responsibilities, the GDC provides oversight of material Group disclosures and market announcements and supports consistency of key messaging made to the public including the Annual Financial Report, Pillar 3 Disclosures and Sustainability Report.

Our ESG Governance Structure & Information flows chart:



* Updates in line with framework governance and reporting requirements
**ESG and material risk updates and reporting requirements
(Note: Arrows indicate information flow only)

STRATEGY

TCFD recommendation:
Actual and potential impacts of climate-related risks and opportunities on business, strategy and financial planning, where such information is material

a. Climate-related risk and opportunities (short, medium, and long term)

At a Group level, transition risks and opportunities, as well as physical risks, are considered over the short (0-3 yrs) medium (3-10 yrs) and long term (10+ yrs). AIB carried out an initial assessment of transition and physical risks and opportunities to ensure we have a resilient strategy aligned to a pathway seeking to limit global warming to 1.5°C, via the annual business planning process. We have embedded emissions targets covering Scope 1 and 2 and Scope 3 Financed Emissions Targets covering 75% of the baseline loan book (as at 31 December 2021 for financed emissions).

Climate-related risks include physical (chronic and acute) risks and transition risks. Transition risk categories include policy, legal, technology, market and reputational risks. The severity and timing of the transition risk will depend upon the nature and speed of transition within different sectors based upon underlying variables and drivers. Some key examples of transition risk include increases in carbon taxes and adoption of often competing new low-carbon technologies. Physical risks arise from the physical impacts of a changing climate and can be both chronic (e.g. long-term rise in sea level) and acute (e.g. severe weather events). These risks can manifest themselves for AIB in impacts upon customer operations, supply chains, key assets, underlying infrastructure and workforce capacity.

Overall, a level of uncertainty is present regarding the timing of both climate-related transition and physical risk. Transition risk is expected to impact across the short, medium and long term as new technology, policies, legal and market shifts take place in the segments within which AIB operates. In terms of physical risk and flood risk in particular, climate scenarios demonstrate that these risks may manifest in the long term as the climate changes with the advent of both chronic and acute flood risks. These transition and flood risk themes are outlined further in the table below and following sections on Flood Risk in particular.

AIB recognises and embraces the significant opportunities in supporting our customers in their transition to a low carbon future. The systematic switch over time to a low carbon economy creates a vital commercial opportunity to deploy capital at scale across AIB's key sectors and geographies, in an environmentally and risk conscious manner.

Flood Risk
We continue to be focused on flood risk as the most significant physical risk for AIB's portfolio and have developed initial metrics to better understand this risk for our property-related exposure to begin with. Our initial approach is subject to further evolution based on industry developments and as supervisory and regulatory expectations continue to evolve over time.

AIB has Non Financial Corporate (NFC) exposures secured on immovable property of €8.4bn in 2022, of which €0.27bn (3.2%) is sensitive to Physical Flood Risk*.

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*Note: The physical flood risk is aligned with our CRR449a Pillar 3 disclosure showing "sensitivity" to physical risk for NFC's secured by immovable property under an adverse climate scenario. Adverse climate scenario is defined as: RCP 8.5 to 2035, and a 1:100 risk of a flood event.The threshold of risk for sensitive is set at a 1% flooding risk (1:100) and the adverse climate change scenario to 2035. This approach aligns to the EBA 2021 ESG Risk Management guidance in so far as there is prescriptive guidance.

Key Sectors: Loans & Advances to Customers at 31.12.22	Transition Risks	Physical Risks	Opportunities
Property (Residential and Commercial) 63%	• Increase in carbon taxes impacts on cost of heating for low energy efficiency buildings, reducing owner repayment capacity ⬛ / 🟪 • Low energy efficiency buildings reduce in value impacting collateral ⬛ / 🟪 • High raw material costs for retrofitting and limited supply chain capacity increase risk of default 🟩 / ⬛ • Some risk of stranded assets for low energy efficiency buildings ⬛ / 🟪 • Risk that key policies (incentives, etc.) are not applied in a consistent manner 🟩 / ⬛ / 🟪	• Increase in flood risk due to extreme weather events, rising sea levels, river flooding and changes in precipitation and temperature patterns: – Negative impact on property collateral from flood damage ⬛ / 🟪 – Could lead to increased insurance / inability to insure some properties ⬛ / 🟪 – Risk of stranded assets and portfolio impacts 🟪	• Retrofitting of residential and commercial buildings • Support increases in supply chain capacity and expertise • Solar rooftops – commercial, business and residential • Longer-term potential to support customers via innovations such as carbon trading platforms
Manufacturing 5%	• Carbon price impact on products and services reducing demand e.g. steel / cement and other building products ⬛ / 🟪 • Changing consumer preferences to low carbon manufactured goods and services 🟩 / ⬛ / 🟪 • Changing business models and impact of circular economy drives a shift towards total lifetime impact and products shifting to being consumed as a service ⬛ / 🟪 • Requirement to invest in new low carbon technology, but with demand for products and services uncertain 🟩 / ⬛ • Risk that key policies (incentives, etc.) are not applied in a consistent manner 🟩 / ⬛ / 🟪	• Negative impact on property values from flood damage ⬛ / 🟪 • Impact from severe weather on operations and global supply chains 🟩 / ⬛ / 🟪	• Investment in R&D for new building products including green steel and alternative cements • Funding for business model innovations and shift to circular manufacturing models
Transport 4%	• Impact of carbon pricing combined with cost of energy for internal combustion engines (ICEs) makes traditional car ownership more challenging 🟩 / ⬛ • Technology risk for commercial vehicles in particular as the pathway for electrification vs alternative / renewable gas vehicles remains uncertain ⬛ • Risk that key policies (incentives, etc.) are not applied in a consistent manner 🟩 / ⬛ / 🟪	• Increased severity in extreme weather leads to disruption to freight routes with associated supply chain impacts ⬛ / 🟪 • Severe weather leads to some damage and need to adapt / protect key infrastructure which could increase construction and insurance costs ⬛ / 🟪	• Public charging infrastructure for electric vehicles • Viable alternative business models to private car ownership, especially in urban settings • Adoption of public transport and cycling / walking infrastructure
Energy 5%	• Increased carbon prices and cost of energy create policy constraints limiting the implementation of the transition to a low-carbon energy system 🟩 / ⬛ • Ensuring adequate security of energy supply during transition to a low-carbon energy system 🟩 • Risk of high energy prices impacting vulnerable customers 🟩 • Risk that key policies (incentives, etc.) are not applied in a consistent manner 🟩 / ⬛ / 🟪	• Seasonal changes in wind variability make wind generation capacity less certain, reducing security of supply ⬛ / 🟪 • increased exposure to storm damage e.g. offshore wind, leads to increased maintenance and operational costs ⬛ / 🟪	• Onshore / offshore wind and solar • Waste to energy • Infrastructure for energy storage • Infrastructure for offshore wind • R&D for hydrogen and other alternative gases
Agriculture 3%	• Impact on beef and dairy farming profitability due to increased carbon prices and inability to pass through costs on products to customers ⬛ / 🟪 • Changing customer preferences away from traditional animal-based products reduces demand ⬛ / 🟪 • Increased focus on sustainability credentials in order to continue to serve key export markets and access grants and additional funding 🟩 / ⬛ • Some viability challenges for sub-scale farmers that fail to access additional grants and EU level funding ⬛ / 🟪 • Risk that key policies (incentives, etc.) are not applied in a consistent manner 🟩 / ⬛ / 🟪	• Changes in precipitation and temperature patterns during the growing season leads to fodder shortages within supply chains, damage to tillage and increased propensity for animal disease ⬛ / 🟪 • Impacts on growing seasons in Ireland and also global disruptions to supply chains leads to volatile commodity prices ⬛ / 🟪	• Adoption of sustainable farming practices • Diversification into new business models including land use and energy transition

Key:

🟩 Short term (0-3 yrs) (business planning period) ⬛ Medium term (3-10 yrs) 🟪 Long term (10+ yrs)

Transition Risk
Our Group Loan Portfolio by Sector table (see below), shows our exposure to all sectors.

Previously, heatmap analysis was undertaken to assess transition risk and identified these sectors/sub-sectors as most prone to transition risk

- Agriculture – Dairy and cattle farming
- Manufacturing – Food processing
- Transport – Road, rail and water transport; or aviation
- Non-renewable energy.

Although property and construction was identified as carrying some transition risk via the heatmap exercise, it was agreed that this sector climate risk would be primarily considered within physical flood risk.

During 2022, c. 8% of new lending (over a threshold of €/£300k gross connected exposure) was to sectors most prone to transition risk. AIB completed an assessment of those customers via an ESG Questionnaire.

Over the course of 2022, work commenced to further enhance and refine this tool, broadening the scope of coverage at both counterparty and sector level.

In 2022 work continued in further embedding ESG risk with a focus on reviewing and updating, where appropriate, relevant policies to include further ESG requirements.

	at 31.12.2022		at 31.12.2021	
AIB Group Loan Portfolio by Sector	**Loans & advances to customers (€bn)**	**% of AIB Loan Book**	**Loans & advances to customers (€bn)**	**% of AIB Loan Book**
Residential mortgages	30.3	49	29.4	50
Property & construction	8.8	14	7.6	13
Non-Property Business				
Distribution	4.1	7	4.7	8
Manufacturing	2.9	5	2.6	4
Transport	2.6	4	2.2	4
Agriculture	1.7	3	1.7	3
Energy	2.8	5	2.2	4
Financial	0.5	1	0.5	1
Other Services	4.8	8	4.8	8
Other Personal	2.7	4	2.7	5
Total	61.2	100	58.4	100

- Numbers are rounded

AIB Climate Risk Heatmap

	Risk Category	Residential mortgages	Property & construction	Distribution	🟪 Manufacturing	🟪 Transport	🟪 Agriculture	🟪 Energy
	31.12.22 Loans & Advances to Customers (€bn)	**30.3**	**8.8**	**4.1**	**2.9**	**2.6**	**1.7**	**2.8**
Transitions Risks	Carbon pricing & other GHG emissions regulations	🟥	⬛	🟥	⬛	⬛	⬛	⬛
	Transportation emissions reductions regulations	🟩	🟩	🟩	🟥	⬛	🟥	🟩
	Increased competition from low-carbon and/or energy efficient technologies	🟩	🟥	🟥	⬛	🟥	🟩	🟥
	Global trade policies	🟩	🟩	🟩	🟥	🟥	⬛	🟩
	Increase in energy, water and insurance costs	🟩	🟥	🟩	🟥	🟥	⬛	🟥
	Increase in costs of raw materials	🟩	🟥	🟩	🟥	🟩	🟥	🟥
	Removal of non-renewable energy subsidies	🟩	🟩	🟩	🟩	🟩	🟩	🟩
	Changing consumer behaviour	🟥	⬛	🟥	🟥	⬛	⬛	⬛
	Reputational risk	🟥	🟥	🟩	⬛	⬛	⬛	🟥
	Exposure to litigation	🟩	🟩	🟩	🟥	🟩	🟩	🟥

Key:

🟪 High climate risk sector for AIB
⬛ Material financial impact on sector from transition risk
🟥 Moderate financial impact on sector from transition risk
🟩 Low financial impact on sector from transition risk

Climate Opportunities
From an opportunity perspective, and as part of the business and financial planning process, a review of climate opportunities considering evolving market dynamics, regulatory, legal and societal trends was undertaken to strategically review and assess the areas of investment focus. This exercise involved stakeholders from across the Group to define the long list of opportunities and to agree the prioritised list of opportunities for inclusion. The basis for the prioritisation included weightings for climate impact, as well as wider commercial parameters.

The key opportunities identified within the strategic and investment planning process can be referenced in the table on page 33. Some examples of these opportunities include retrofitting of residential and commercial buildings, solar rooftops across commercial, business and residential and sustainable farming measures, research and customer supports.

b. Impact of climate-related risks and opportunities on businesses, strategy, and financial planning.

Impacts
The financial impacts of climate and environment are considered within two key processes. Firstly, the financial impact associated with the Financed Emissions Targets to 2030 and Net Zero commitment to 2040 (and 2050 for agriculture) is a formal part of business and financial planning. Business areas are required to consider the impact on projected revenues, costs and margins associated with meeting the Financed Emissions Targets over the period of the plan and outlook to 2030. Secondly, within the ECB 2022 Climate Risk Stress Test, analysis was completed based on the scenarios of the Network for Greening the Financial System (NGFS). These included quantitative forecasts for short- and long-term transitional risk, short term drought/ heat risk and short-term flood risk.

At a Group level, transition risks and opportunities, as well as physical risks, across the short (0-3 yrs) medium (3-10 yrs) and long term (10+ yrs) are inputs into the business and financial planning process. Key issues are considered across sectors and AIB's ROI and UK geographies. These time horizons have been determined based on a combination of literature review, 2022 ESG Heatmap from Moody's, S&P Global and internal and external workshops.

The longer-term scenario analysis was completed as part of the Group climate risk stress testing exercise where the parameters and scenarios utilised were provided as part of the ECB 2022 Climate Risk Stress Test, taking into account the lifespan of AIB's assets (see Climate Risk Stress Testing Section on page 37 to 38).

Business and Financial Planning
Within the business and financial planning process, climate and environmental issues have been considered as a key input to the allocation of capital for each of the key business segments.

- Financed Emissions Targets covering Retail Banking, Capital Markets and the UK business, were included in the process and were a key parameter within planning - for example, funding to propositions supporting green financing in support of achievement of the emissions targets; and,
- Levels of green and transition lending were included within business planning (% of total new lending) to provide AIB with increased visibility on the trajectory to achieve our 2030 target that 70% of total new lending should be green or transition.

Transitioning to a lower-carbon economy will entail extensive policy, legal, technology, regulatory and market changes to address mitigation and adaptation requirements related to climate change. In 2022 as part of the business and financial planning process, key areas considered included,

- Green mortgage lending and pricing strategy;
- Business plan focus on high energy efficiency buildings;
- SME Sustainability Customer Tool;
- Relationship Manager ESG training and supports, specialist customer advisor supports;
- ESG research and thought leadership to define sector strategies;
- Developing Sustainability Linked Loan framework to support transition across all sectors; and,
- Full suite of propositions/products focused on higher-risk sectors to support transition

Products and Services
Providing products and services to support customers to transition to a low-carbon economy form a key part of the Group strategy and financial planning process. We have continued to grow our green lending, to provide support for the transition, working alongside key stakeholders. AIB continues to actively engage with the Net Zero Banking Alliance, Equator Principles, WEF Stakeholder Capitalism Metrics and UN Global Compact.

AIB is committed to thought leadership in the ESG landscape. In 2022, AIB SME Sustainability Research was carried out by Amárach Research, who surveyed 300 businesses (250 SMEs and 50 larger firms) providing research and insights into SMEs' own perspectives on the ESG challenges and opportunities they are encountering. AIB is also facilitating ESG knowledge transfer to its SME customers through its support of programmes such as Enterprise Nation's Plan it with Purpose, the Dublin Chamber Sustainability Academy and the AIB Green Living Hub.

Agriculture faces unique challenges in respect of ESG and specifically climate change. With ambitious National GHG emissions reduction targets, the farming sector must identify, develop and adopt new technologies that can enable achievement of these targets. AIB will continue to support this transition effort in agriculture through our support of initiatives such as: Grass 10; Teagasc Signpost Programme; Irish Grassland Dairy Summer Tour; and Teagasc Moorepark Open Day. Each of these contribute to the farm sector sustainability R&D and knowledge transfer effort.

In 2021, the World Business Council for Sustainable Development (WBCSD) formed the Banking for Impact on Climate in Agriculture (B4ICA) initiative in partnership with UNEP FI, PCAF and the Environmental Defence Fund (EDF). AIB joined the initiative so we could collaborate with other agriculture industry stakeholders to help develop solutions to better measure agriculture carbon emissions at a farm / producer level, which will further aid development of solutions to manage those emissions.

c. Resilience of strategy, taking into consideration different climate related scenarios, including a 2°C or lower scenario.

AIB has a strategy and plans in place to ensure transition to meet our emissions targets across Scope 1, 2 and Scope 3 financed emissions.

Financed Emissions

From a Scope 3 financed emissions perspective, we have set Financed Emissions Targets covering 75% of our Group loan portfolio as at 31 December 2021, based on decarbonisation scenarios with outcomes to 1.5°C.

For each of the portfolios covered by the Financed Emissions Targets the business areas are required to develop transition plans considering the delivery of the targets within the business planning process, including via ensuring appropriate products and services are in place to support customers to transition. This includes education, training and customer engagement.

Own Operations

From a Scope 1 and 2 perspective AIB modelled two new targets, committing to reduce absolute Scope 1 GHG emissions 34% by 2027 from a 2019 base year and to increase annual sourcing of renewable electricity to 100% by 2030.

A Corporate Power Purchase Agreement (CPPA) contract was signed with NTR plc to source renewable energy generated from two solar farms in Ireland which is expected to remove c. 80% of our Scope 2 emissions. This partnership will help deliver on our commitment to source 100% of our power requirements from certified renewable energy sources by 2030.

Key elements of strategy and areas of progress in 2022 include:

- Our property strategy and energy efficiency investments have resulted in 40% reduction in GHG emissions against our Net Zero target;
- 37% reduction in Scope 1 GHG emissions against 2019 baseline;
- Developed a Net Zero Strategy for the Group's remaining property portfolio. Aligned with this we refurbished one of our main locations in Eyre Square, Galway to eliminate fossil fuels;
- Strategy in place to transition AIB's corporate fleet to electrical vehicles; and,
- Continued investment in energy efficiency projects.

RISK MANAGEMENT

TCFD recommendation:
How AIB identifies, assesses and manages climate-related risks.

a. Processes for identifying and assessing climate-related risks.

Our Material Risk Assessment (MRA), which is completed at least annually, identifies the Principal Risks and emerging risks facing the Group, the assessment considers the impact of climate risks for AIB, our customers and the societies in which we operate and determines a suitable risk appetite. The MRA is a key input into the Group's risk management processes including the Risk Appetite Statement (RAS), which sets out the maximum amount of risk the Group is willing to accept. See page 133. (Sustainability Report page 33). The Group's risk taxonomy consists of the Principal Risks, the associated sub risks and the risk drivers that may impact these risks.

The Group's Principal Risks and how they are managed are set out in this Annual Financial Report on page 23 to 25.

ESG risks continue to be identified as key risk drivers impacting all of the Group's Principal Risks, especially Credit Risk.

Risk Terminology Used

Physical risk: Physical risks due to acute and chronic climate change and environmental degradation (e.g. flooding, water stress, biodiversity loss and pollution) causing physical damage of property, branches.

Transition risk: Uncertainty related to the timing and speed of adjusting to a Net Zero economy including changes in policy, technology and consumer preferences.

Risk driver: An external risk that, should it occur, will materially impact on one or more of the Principal Risks.

The Group undertakes horizon scanning and monitoring of climate-related developments, which is particularly important given the uncertain and long-term nature of the risks from climate change, as well as the increasing focus in this area.

Regular monitoring of climate-related regulatory and legal developments is in place across different areas of the Group to ensure suitable consideration and appropriate action is taken and our Regulatory Compliance team is responsible for independently identifying and assessing current and forward-looking compliance obligations, including regulation and guidelines in relation to climate change.

We have a multi-annual Sustainability Regulatory programme in place that is responsible for implementing all ESG-related regulatory requirements governed by a Steering Group of senior business stakeholders.

In 2021, the Central Bank of Ireland (CBI) announced its intention to establish a Climate Risk and Sustainable Finance Forum in 2022, bringing together stakeholders to share knowledge and understanding of the implications of climate change for the Irish financial system. AIB Group continues to participate in this Forum and to ensure we are meeting regulatory expectations and requirements, including those relating to governance, risk management frameworks, scenario analysis, disclosures and strategy and business model risks.

We complete our climate risk stress test to enable us to assess the potential size and scope of our identified climate risks.

b. Processes for managing climate-related risks

Credit Risk

In 2021, the heat mapping exercise identified a number of sectors as high risk from a transition perspective (Agriculture, Energy, Food Processing & Transport), and the ESG questionnaire was introduced to ensure a better understanding of the ESG risk associated with the borrower. The new ESG Questionnaire was incorporated into credit applications for borrowers in high climate risk sectors where new lending is over €/£300k.

In 2022 work commenced to further enhance and refine it, broadening the scope of coverage at both customer and sector level. We will consider the implementation of changes in our credit risk management process over the course of 2023, following the governance route outlined in the governance section above via GSC, GRC, BRC and SBAC.

In addition, ESG risk commentary is required in all credit applications for customers of our Capital Markets segment.

Climate Risk Stress Testing

AIB commenced development of our climate risk stress testing capabilities in 2021, focusing initially on short- and long-term transition risk credit stress tests and a short-term physical risk credit stress test. The scope for the initial internal stress testing calculations was based on the outcome of the climate heat map which identified the lending portfolios within the Group most exposed to transitional and physical risk. In addition, early development work took place in 2022 on climate risk stress testing for market risk and liquidity risk.

AIB was one of 41 institutions that completed all three modules of the ECB 2022 Climate Risk Stress Test, out of a total of 104 participating institutions. AIB participated in the three modules was as follows:

- Module 1: A qualitative questionnaire aimed at providing a uniform and standardised assessment of banks' climate risk stress-testing structures.
- Module 2: A data template aimed at providing peer comparisons for the sensitivity of banks' income to transition risk and their exposures to carbon-intensive industries as at December 2021.
- Module 3: Four individual credit stress tests were performed based on the scenarios of the Network for Greening the Financial System. These included quantitative forecasts for short- and long-term transitional risk, short-term drought / heat risk and short-term flood risk. In addition, Module 3 incorporated a qualitative questionnaire for operational risk. AIB did not participate in the market risk element of Module 3 due to immateriality of exposures.

In July 2022, the ECB produced a report on the 2022 Climate Risk Stress Test. Within their report, a number of challenges were noted that correspond with the two key challenges experienced by AIB in our participation in the exercise:

- Data: Large gaps exist in the availability of GHG emissions data and energy performance certificates at counterparty and itemised collateral level. For the stress test, these gaps were filled with estimates based on proxies rather than actual information.
- Model Maturity: Models are currently at an early stage of development. Published industry standards for climate models are not yet available and AIB's climate models, although reviewed for reasonableness by external advisors, have not been through formal validation.

This work will continue to be advanced over the course of 2023. AIB is developing a fully integrated Climate Stress Testing Framework which builds on the experience of the 2022 stress test and the December 2022 ECB report on good practices for climate risk stress testing, including:

- A significant improvement in collateral data in relation to exposure to flood risk, leading to compliance with article 449a requirements for Pillar 3 reporting. Continued progress with corporate and business customers to ensure improved accuracy on emissions data.
- Current models are being run as part of the annual ICAAP. Further developments are planned for the model suite to ensure the Group is in line with developing market best practice. The model suite will be validated by an independent internal team before the end of 2023. Climate model development standards are currently being developed by the independent validation team in conjunction with external partners for application in the 2023 model redevelopment.

Operational Risk

Over the course of 2022 the Risk Control Assessment guidelines were enhanced to support the consideration of ESG risk on AIB's operational risk profile. Work on integrating ESG risk into the Business Continuity and Third Party Management procedures and policies also continued. We have integrated the Responsible Supplier Code within our third-party management activities. During 2023, we will outline an overall roadmap and approach for AIB's supply chain and third-party management to fully consider climate and wider ESG elements and an implementation plan to embed these within our processes. In addition, we continue to enhance our approach in assessing the impact of physical risk on our own locations, operations and supply chain.

In 2021 AIB took initial steps to develop our understanding of flood risk for AIB owned operations across ROI and UK. Based on 2020 flood data c.22% of properties (out of 284 properties) are in higher flood risk areas and this increases to 24% in 2080 under the Representative Concentration Pathway (RCP) 8.5°C climate scenario. The relatively high percentage is due to location of AIB-owned operations being located in town centres (majority in Dublin and Cork both located near rivers which have a high flood risk score). We expect an update to this exercise to be completed in 2023 based on latest industry developments which continue to evolve.

During 2022 AIB Corporate Development updated operating procedures to include climate and ESG considerations and, as part of transaction due diligence, will include ESG considerations in its evaluation of strategic investment activity.

Business Model Risk

The Group has approved a new climate risk quantitative metric under Business Model Risk in the Group's Risk Appetite Statement as well as Climate Risk qualitative statements for Climate Risk that help articulate appropriate areas of climate-related risk appetite and the Group's approach to the risk assessment of our customers.

c. Integration of processes for identifying, assessing and managing climate-related risks into overall risk management

The Board approved a new Environmental, Social & Governance Framework in December 2022 to ensure that the Group's overall approach to the management of key components of the agenda are clearly defined and well understood. The Group's Risk Management Framework incorporates ESG and material risk owners are required to incorporate climate risk within the annual review of their respective risk frameworks and policies.

Our Material Risk Assessment (MRA) process, which is completed at least annually, considers the impact of climate risks for AIB, our customers and the communities in which we operate, helping us to identify the material risks to the Group and then determine a suitable risk appetite for them.

In our most recent MRA process, we assessed the ESG risks and identified transition and physical under environmental and governance risk as a risk driver impacting the Principal Risks.

The MRA is a key input into the Group's risk management processes, including the RAS, which sets out the maximum amount of risk the Group is willing to accept. See Sustainability Report on page 33.

In 2022, the focus continued to be on embedding ESG considerations across all relevant material risk policies.

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METRICS AND TARGETS

TCFD recommendation:
Actual and potential impacts of climate-related risks and opportunities on business, strategy and financial planning where such information is material.

a. Metrics used to assess climate-related risks and opportunities in line with strategy and risk management process

Overview and Methodology
To set Financed Emission Targets, there are several key steps involved, which together form the overall target setting methodology. These steps combine actual AIB and wider market data with a set of assumptions and decarbonisation levers to provide a baseline financed emissions position and associated Financed Emission Targets. The steps undertaken included:

- Calculation of each lending portfolio's baseline emissions in line with Partnership for Carbon Account Financials (PCAF) GHG guidance;
- Calculation of absolute and intensity requirement based on standardised industry International Energy Agency (IEA) decarbonisation 1.5°C aligned pathways;
- Determination of AIB and national decarbonisation levers to reduce emissions e.g., Decarbonisation of the electricity system as a national lever and a continued leading Green mortgage market proposition as a specific AIB lever;
- Quantification of the impact of each lever on emissions across counterparty Scope 1, 2 and 3 emissions;
- Financed Emissions Targets were governed and approved, including the relevant business actions and metrics; and,
- Short-term (annual) portfolio level Financed Emissions Targets set in line with medium-term Net Zero ambitions regularly monitored.

Financed Emissions Targets
In 2022, Financed Emission Targets were set for c. 75% of our group lending portfolio. AIB selected 31 December 2021 as the Scope 3 financed emissions baseline position as this reflected the latest available year-end loan book data against which to set the targets.

The targets include the mortgage portfolio (50%), CRE lending portfolio (10%), electricity generation (3%) and the corporate portfolio (12%). Over the period to 2030 we expect to see a significant reduction in emissions intensity of 58% per m^2 for mortgages and 67% per m^2 for CRE at the Group level.
The electricity generation portfolio is primarily comprised of renewable energy assets such as offshore wind and is therefore starting at a very low level of intensity of emissions (21g CO2/kwh). This is aligned to science based IEA decarbonisation pathways that deliver a 1.5°C outcome.
For the corporate portfolio, we have set portfolio coverage targets. This means that AIB's counterparties are required to set their own approved emissions targets. 12% of the in-scope corporate book (by loan value) currently have approved emissions targets, and AIB's target is to increase that to 54% by 2030.

Actions to achieve the targets
The Financed Emissions Targets have identified measurable business actions and metrics that will be monitored to ensure progress is made towards achieving them:

- For property-based lending, the emission reduction metric for measurement purposes is the proportion of new lending to properties with Building Energy Rating (BER) / Energy Performance Certification (EPC) of A or B;
- The metric relating to the electricity generation maintenance target focuses on emission intensity and ensuring that new lending is primarily to renewable electricity projects; and,
- For the corporate portfolio coverage target the key business action focuses on customer outreach and engagement.

For each of the Financed Emissions Targets, the key business actions that support these emission reductions have been identified and are now tracked as part of our business planning process.

Financed Emissions Targets – AIB Group Lending Portfolio	% of Loans 31.12.2021	Decarbonisation Scenario	2021 Baseline Financed Emissions	2021 Baseline Emission Intensity/Emissions Targets coverage*	% Reduction in Emissions/ Emissions Targets coverage required by 2030
Residential Mortgages	50%	IEA 2021 NZE2050 (1.5°C)	1.3 mtCO2e	40 kgCO^{2}e/M^2	58%
Commercial Real Estate	10%		1.2 mtCO2e	135 kgCO^{2}e/M^2	67%
Electricity Generation	3%	Maintenance Target	0.07 mtCO2e	21 gCO^{2}e/kWh	Maintain
Corporate Portfolio Coverage	12%	Emissions Targets Portfolio Coverage	n/a	12% loan volume covered by emissions targets	54% loan value covered by emissions targets
Fossil fuels	<1%	Emissions Targets Portfolio Coverage	n/a	No separate coverage target as not material	n/a
Total Loan Portfolio Covered	**75%**		2.57 mt Co2e		

Notes:
It should be noted that the approach to setting Financed Emissions Targets and associated data collection is still evolving and is subject to change over time. As such, the figures disclosed may evolve in line with industry best practice.
AIB Group plc's portfolio targets cover 36% of its total investment (Balance Sheet) and lending activities as of 2021. Within its loan portfolio, AIB's portfolio targets cover 75% of its lending activities as of 2021. Outside of the loan book coverage AIB does not have material investments. Total listed equities / bonds of €0.5bn (0.3% of B/S), not proposing to disclose this target for 2022 year-end reporting 2022.
*The 2021 Baseline emission intensity column is AIBs starting position for emissions per portfolio. The % reduction required by 2030 is the % reduction in intensity required to meet the targets. Noting that for the Corporate Portfolio coverage (4th row) the target requirement is to see an increase in coverage from 12% to 54% (whereby AIB's counterparties set emissions targets themselves).

Transition and Physical Risk

We continue to be focused on flood risk as the most significant acute and chronic physical risk and have developed initial metrics to better understand this risk for our property-related exposure. These new metrics support the tracking of acute and chronic physical risk for our key property portfolios. Our approach is subject to further evolution based on industry developments and supervisory and regulatory expectations which continue to evolve over time. On the transition risk side, we require all new lending over £/€300k in high transition risk sectors to complete our ESG Questionnaire. In 2022 this amounted to 8% of all new lending.

		2022
Non Financial Corporate (NFC) exposures sensitive to Flood risk secured on immovable property*	Sensitive to Physical risk	3.2% (€0.27bn)
% of new lending to sectors with higher transition risk		8%
% of lending to sectors with higher transition risk		6%
Exclusions/Assets Excluded from EU Paris-aligned Benchmarks (% lending to non-financial corporates)		<1%

Notes
- Our approach continues to evolve in line with industry developments and numbers may change with time.
- *The physical flood risk is aligned with our CRR449a Pillar 3 disclosure showing "sensitivity" to physical risk for NFC's secured by immovable property under an adverse climate scenario. Adverse climate scenario is defined as: RCP 8.5 to 2035, and a 1:100 risk of a flood event. The threshold of risk for sensitive is set at a 1% flooding risk (1:100) and the adverse climate change scenario to 2035. This approach aligns to the EBA 2021 ESG Risk Management guidance in so far as there is prescriptive guidance.
- The % of new term lending to high transition risk sectors is based upon an ESG Questionnaire completed by counterparties, with exposure >€/£300k, in the high-risk sectors identified in the heatmap.
- The % of total lending to high transition risk is based upon the high-risk sectors identified in the heatmap, as a % of total balance sheet.
- Non-Paris Agreement aligned assets refers to non-financial corporate lending to counterparties with revenue from fossil fuel activities.

Sustainable Finance

We are committed to supporting our customers to transition to a low-carbon economy by providing them with appropriate sustainable finance products and services. During 2022 we continued to deploy our Climate Action Fund by providing lending to energy efficient properties and renewable energy projects. The table below shows the key metrics used by AIB to track and monitor sustainable finance lending and activity.

	2022	2021
Actual % of new mortgage lending to energy efficient homes	49 %	
New green lending (Climate Action Fund)	€3.3bn	€2.0bn
New green lending as % total new lending	26 %	19 %
Green bond issuances	€1.5bn	€0.75bn
CDP rating	A-	A-

Notes:
- Our approach continues to evolve in line with industry developments and numbers may change with time.
- New green lending includes green and transition lending, as defined in our Sustainable Lending Framework.
- % new mortgage lending for energy efficient homes is based on new mortgage lending to borrowers with the provision of a BER certificate. The Transition Risk Indicator metric is the level required to meet emissions target.
- For the % new mortgage lending to energy efficient mortgages metric, new self builds are assumed to be within building regulation i.e. A-B BER rated. The rest of the properties are based on BER certificates
- The new green lending figure is compiled based on new lending to the following categories, as defined within AIBs Sustainable Lending Framework (i) renewable energy (ii) green mortgage product based on BER / EPC certificate (iii) A and B rated energy efficient properties BER / EPC certificate.
- The Green bond issuances are aligned with the Green Bond Framework and associated governance, including from Second Party Opinion (SPO) independent review
- The Carbon Disclosure Project (CDP) rating is externally collated and benchmarked by CDP and is based on a survey completed by AIB management

Remuneration

In 2022, AIB did not provide variable pay or long-term incentives to senior management and therefore ESG related incentives are not factored into pay and reward. However, a number of sustainability targets and measurements appear on the Group Balanced Scorecard which is reviewed and challenged quarterly by ExCo and regularly by the Board. In addition, since 2021, senior executives have ESG performance objectives in their scorecards and a mandatory sustainability objective has been in all employee performance reviews for 2022 and ongoing.

Recommended disclosure:
b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.

Scope 1, 2 and 3 greenhouse gas (GHG) emissions are disclosed below. The risks related to emissions are set out in the Strategy and Risk sections on pages 32 to 38.

Absolute GHG Emissions (tCO2e)	2022	2021	2020	Baseline Emissions	Baseline Year
Scope 1: Direct emissions	3,004	3,978	4,213	4,784	2019
Scope 2: Indirect emissions	5,920	5,945	7,575	10,025	2019
Total Absolute Scope 1 and 2 GHG emissions	**8,924**	**9,923**	**11,788**	**14,808**	2019
Scope 3: Category 1 – Purchased goods & service		2,319	2,422	488	2019
Category 2 – Capital goods		926	3,557	129	2019
Category 3 – Fuel & energy-related activities		3,906	2,410	5,512	2019
Category 5 – Waste generated in operations		39	106	199	2019
Category 7 – Business travel		342	884	3,845	2019
Category 8 – Employee commuting		2,008	2,360	4,287	2019
Category 15 – Investments (Financed Emissions, see Financed Emissions Target table on page 26 of our Sustainability Report for more detail)		2,570,000	Not reported	2,570,000	2021

Notes:
- Our data was calculated using The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition (the 'GHG Protocol'); the UK Government's emission conversion factors for greenhouse gas company reporting; the International Energy Agency electricity emissions factors and other emissions factors as required.
- We adopt the operational control approach on reporting boundaries. In 2022 data covers 100% of our operations in Ireland, the United Kingdom and the United States of America, including Goodbody for the first time. In 2021 it included Payzone for the first time.
- 2022 data is the most recent information available for Scope 1 & 2 emissions. The methodology we apply to calculate Scope 1 & 2 emissions for the most recent financial period includes 10 months actual data and 2 months extrapolated. Data for the full 12 months of 2022 will be finalised later in 2023 and may change our disclosed emissions. 2021 data has been updated to reflect changes in methodology and reported emissions account for the full 12 months of 2021.
- Scope 3 emissions are reported one year in arrears - 2021 data is the most recent information available. AIB reports on categories 1, 2, 3, 5, 7, 8 and 15. Category 15 includes lending activity and is being reported for the first time this year. We do not report on categories 4, 6 and 9-14, which are not material for AIB and for which there is currently limited data available.
- Reported Scope 1 and 2 emissions, as well as Scope 3 categories 1, 2, 3, 5, 7 and 8 for 2019-2022 are independently verified by EcoAct. Our verification statements are publicly available at www.aib.ie/sustainability
- Figures are rounded.
- Further detail on our GHG emissions is set out in the ESG Supporting Data section of our FY2022 Sustainability Report.
- Our approach continues to evolve in line with industry developments and numbers may change with time.

Recommended disclosure:
c. Targets used to manage climate-related risks and opportunities and performance against targets

AIB committed to Net Zero in our own operations by 2030.
For emissions targets, we committed to:
i. reducing absolute Scope 1 GHG emissions by 34% by 2027, from a 2019 base year; and

ii. increasing annual sourcing of renewable electricity to 100% by 2030.

We selected a 2019 baseline for our operational emissions targets as neither 2020 or 2021 reflected a standard year's operation due to pandemic-related reductions.

We selected a 2021 baseline for our Financed Emissions Targets as we report information on financed emissions one year in arrears and 2021 emissions data is is our most recent information.

In FY2023 reporting we intend to report on our first year's progress against our emissions targets and further outline our plans to achieve them.

Targets - Net Zero own Operations and Lending to Energy Efficient Homes	2022	2021	2020	Baseline 2019
Total Absolute Scope 1 and 2 GHG emissions (tCO2e)	**8,924**	**9,923**	**11,788**	**14,808**
Reduction (versus Baseline)	(40%)	(33%)	(20%)	
Target % of new mortgage lending to energy efficient homes	47 %			

Notes:
- Metrics cover the Group.

EU TAXONOMY

The EU Taxonomy is a sustainability classification system that translates the EU's climate and environmental objectives into criteria for specific economic activities for investment purposes. The EU Taxonomy aims to redirect capital flows to support the transition and help generate sustainable and inclusive growth. As in 2021, we are disclosing the composition of our balance sheet through the lens of EU Taxonomy eligibility.

Our 2022 EU Taxonomy reporting remains focused on identification of eligible activities and counterparties. We have made progress throughout 2022 on EU Taxonomy reporting readiness in preparation for Green Asset Ratio (GAR) and wider EU Taxonomy requirements due in 2024.

The AIB Sustainable Lending Framework (SLF) and AIB ESG Questionnaire are two internal tools that were introduced in 2021 and rolled out as part of Group-wide loan origination and monitoring. They continue to inform our strategic alignment in preparation for expanded EU Taxonomy reporting in 2024.

AIB offers a range of products that promote Taxonomy-eligible activities to support our customers on their sustainability journey. For example, we offer AIB Green Mortgages at a reduced interest rate. We also offer competitively priced AIB Green Loans for energy upgrades, insulation or other measures to increase energy efficiency or, for example, to purchase an electric vehicle.

Home purchase and building upgrades are both examples of EU Taxonomy-eligible activity and our next steps will include establishing EU Taxonomy alignment of these activities and helping our customers achieve higher energy efficiency.

During 2022, we also launched our AIB Green Development finance offering, available to developments that include specific climate change mitigation measures, aligned with key EU Taxonomy principles.

AIB is taking a significant role in project financing to 'green the electricity grid' and our lending portfolio for Electricity Generation is focused on renewable energy projects.

CCM and CCA

In our 2022 EU Taxonomy disclosure, the European Commission regulation 2020/852 technical screening criteria by economic activity were used to determine eligible activities under climate change mitigation (CCM) and climate change adaptation (CCA),

- CCM: The process of holding the increase in global average temperature to well below 2°C and pursuing efforts to limit it to 1.5°C above pre-industrial levels, as laid down in the Paris Agreement.
- CCA: The process of adjustment to actual and expected climate change and its impacts.

Information- Scope of Assets, Activities (KPIs), Data Sources and Limitations

Our EU Taxonomy disclosure covers AIB Group's balance sheet. Our proportion of in-scope assets exposure to taxonomy eligible economic activities is static year-on-year at 38%, materially comprising 'Household: acquisition and ownership of buildings' as an EU Taxonomy-eligible activity.

A counterparty screening exercise was performed to estimate the Non-Financial Reporting Directive (NFRD) counterparties. At present, this cohort of counterparties represents a small portion of our total lending activity (1%).

Total exposure for other assets not covered in either denominator or numerator has been provided for central governments, central banks and supranational issuers, and the trading portfolio.

OUR 2022 DISCLOSURE

Our proportion of in-scope assets exposure to EU Taxonomy-eligible economic activities is 38%

AIB carefully monitors the evolution of our balance sheet in line with the EU Taxonomy for households and the larger EU Corporates, in scope for NFRD. We will continue to develop our disclosures in line with European Commission and EBA guidelines, including the publication of the expanded EU Taxonomy-related metrics such as the Green Asset Ratio (GAR) under Article 449a CRR.

EU TAXONOMY	Gross Assets (€m)	% Total Assets	% Taxonomy
EU Taxonomy eligible assets	€32,431	**25 %**	**38 %**
Households	€32,243	25 %	38 %
Local governments financing (housing)	€0	0 %	0 %
Non-Financial Corporations subject to NFRD (eligible)	€188	0 %	0 %
EU Taxonomy non-eligible assets	**€53,280**	41 %	**62 %**
Households	€3,086	2 %	
Local governments financing	€18	0 %	
Financial corporations	€16,697	13 %	
Credit institutions	€12,367	9 %	
Other financial corporations	€4,330	3 %	
Non-financial corporations	€25,633	20 %	
Derivatives	€1,865	1 %	
On-demand interbank loans	€277	0 %	
Cash and cash-related assets	€573	0 %	
Other assets (e.g. Goodwill, commodities etc.)	€5,131	4 %	
Total in-scope EU taxonomy assets	**€85,711**	**65 %**	**100 %**
Out-of-scope EU Taxonomy assets	€45,648	35 %	
Sovereigns	€7,155	5 %	
Central banks exposure	€37,839	29 %	
Trading book	€654	0 %	
Total assets	**€131,359**	**100 %**	

1. This table is prepared on the prudential scope of consolidation per FINREP.

OUR NON-FINANCIAL INFORMATION STATEMENT

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

This Non-Financial Information Statement offers some high-level information to provide an understanding of the development, performance, position and impact of our activities in the four non-financial matters.

We have provided references to supplemental information in this report and in our Sustainability Report 2022, which is reported with reference to the Global Reporting Initiative (GRI) Standards. For information on our business model, see pages 14 and 15.

In AIB, policies and codes are in place to enable us to operate our business in a responsible and sustainable way. Below we have set out some of the key policies related to Non-Financial Reporting Directive (NFRD) requirements, and provided links to the associated Principal Risks and key performance indicators (KPIs) for each matter.

→ **For more information**, see our Sustainability Report 2022

ENVIRONMENTAL MATTERS	
ENVIRONMENTAL POLICY	Our Environmental Policy enables us to carry out activities in our own operations taking environmental protection into account, to manage the direct and indirect environmental impact of our business in a responsible way and to achieve continual improvement in environmental performance. AIB is certified to ISO 14001 for environmental management. Our policy was approved by our former Chief Operating Officer Designate and our Chief Sustainability & Corporate Affairs Officer. It is publicly available at www.aib.ie/sustainability
ENERGY POLICY	Our Energy Policy enables us carry out our business as energy efficiently as possible, reduce our carbon footprint and to achieve continuous improvement in energy performance. AIB is certified to the international standard ISO 50001:2018 for energy management. Our policy was approved by our former Chief Operating Officer Designate and our Chief Sustainability & Corporate Affairs Officer. It is publicly available at www.aib.ie/sustainability
GROUP CREDIT RISK POLICY	Our Group Credit Risk Policy includes a list of excluded business activities that are considered to be incompatible with Group strategy due to negative environmental impacts associated with deforestation, nuclear power generation, natural gas fracking and the exploration, extraction or refining of oil or coal. The policy rule prohibits providing new money for any term lending facilities to businesses, or any of their subsidiaries, involved in the excluded business activities. This rule applies to all business customers with a Gross Connected Exposure of > €/£300k and who are relationship managed. Our policy was approved by our Board. The list of excluded activities is publicly available at www.aib.ie/sustainability
PROJECT FINANCE POLICY	Our Project Finance Policy, approved by our Group Credit Committee, guides our renewable energy lending assessments and decisions for long-term infrastructure, industrial projects and public services. Within credit assessment due diligence, assets that are likely to have significant effects on the environment by virtue of their size, nature or location must undergo an environmental impact assessment (EIA), which will have to be submitted to competent authorities when applying for project development. AIB may rely on analyses provided by external parties to support our assessment. Our policy was approved by our Group Credit Committee. It is publicly available at www.aib.ie/sustainability
SUSTAINABLE LENDING FRAMEWORK	Our Sustainable Lending Framework (SLF) enables the classification of customer loans as green, transition or social. The SLF was developed to provide transparency on the criteria that AIB employs in reporting on green and transition lending to help us achieve our ambition that 70% of new lending should be green or transition by 2030. It is based on industry best practice and is aligned, where applicable, to the EU Taxonomy regulation and will evolve as the EU Taxonomy develops. Our framework was approved by our Group Sustainability Committee. It is publicly available at www.aib.ie/sustainability
KPIs	Our main key performance indicators for environmental matters are: • Reduction in emissions – in 2022 we achieved a 10% reduction in our Scope 1 & 2 GHG emissions (yoy); and, • Green finance – in 2022 we advanced €3.3bn in new green lending.
PRINCIPAL RISKS	→ **Operational Risk** (see pages 202 to 203), **Financial Risk** (see pages 195 to 201), **Liquidity & Funding Risk** (see pages 188 to 194), **Business Model Risk** (see page 202), **Model Risk** (see page 207) and **Credit Risk** (see pages 134 to 187)

SOCIAL & EMPLOYEE MATTERS	
CODE OF CONDUCT	Our Code of Conduct sets out clear expectations for how we behave and how we do business. The code guides our behaviours and emphasises our commitment to acting ethically, honestly and with integrity while demonstrating trustworthiness. It applies to anyone working in AIB. All employees are required to adhere to our code and complete a declaration of compliance with our code as part of their annual performance review. Annual e-learning on the code is mandatory for all employees. Our code was approved by our Board Audit Committee. It is publicly available at www.aib.ie/sustainability
SPEAK UP POLICY	Our Speak Up Policy is our whistleblowing policy. It sets out how all those working in and for AIB Group, including but not limited to, employees, agency staff, tied agents, suppliers, contractors, consultants and those providing an outsourced service, can safely and confidentially speak up to raise a concern about suspected or actual wrongdoing in work, without fear of penalisation. The policy outlines the channels available to raise such concerns. The policy is approved by our Board Audit Committee. It is publicly available at www.aib.ie/sustainability
INCLUSION & DIVERSITY CODE	Our Inclusion & Diversity Code is based on an ethos that respecting, developing and harnessing the talents of all our employees creates an inclusive and supportive organisation. It enables the Group to deliver a superior experience for all our customers, provides an inclusive place to work for our employees, and brings an appropriate financial return for our shareholders and the economies within which we operate. Our code was approved by our Executive Committee. It is publicly available at www.aib.ie/sustainability
SOCIAL HOUSING POLICY	Our Social Housing Policy, together with our Commercial Investment Policy, supports lending to our customers for social housing and helps us to manage and mitigate the associated risks. Our policy was approved by our Group Credit Committee.
HEALTH & SAFETY POLICY	Our Health & Safety Policy sets out our commitment to ensuring the safety of our employees, customers, contractors, visitors and our workplace. Our policy was endorsed by our Chief Executive Officer. It is publicly available at www.aib.ie/sustainability
KPIs	For social and employee matters, our key performance indicators include: • Diversity – In 2022, we maintained gender balance with 40% female representation at Board, 42% at ExCo and 42% across all management levels. • Social housing finance – We supported social housing by providing funding of €91m in 2022, representing c. 570 homes. This brings the total of social housing financed since we announced our target in 2020 to €437m.
PRINCIPAL RISKS	→ **People and Culture Risk** (see pages 205 to 206) and **Credit Risk** (see pages 134 to 187)

ESG DISCLOSURES – NFI STATEMENT CONTINUED

RESPECT FOR HUMAN RIGHTS	
HUMAN RIGHTS COMMITMENT	Our Human Rights Commitment outlines how we respect human rights in accordance with internationally accepted standards. Our commitment to human rights is being embedded in the culture and values that define our company, and is reflected in our policies and actions towards our customers, employees, suppliers and the communities and countries where we do business. It has been shaped by the United Nations Guiding Principles on Business and Human Rights. Our Human Rights Commitment operates alongside our Code of Conduct and Responsible Supplier Code, and our commitments are aligned with those laid out in the laws applicable to the jurisdictions in which we operate, the European Convention on Human Rights and, for our business in Ireland, the EU Charter of Fundamental Rights. Our commitment was approved by our Executive Committee and reviewed by our Sustainability Business Advisory Committee and Board in February 2021. It is publicly available at www.aib.ie/sustainability
CODE OF CONDUCT	Our Code of Conduct is our central policy for the human rights of our employees. In addition, our wider policy suite exists to protect our employees and respect their rights. Additional supporting policies include: our Inclusion & Diversity Code; Anti-Bullying & Harassment Policy; Domestic Abuse Handbook; Speak Up Policy; and Grievance Policy. We ensure that we not only fulfil our legislative requirements, but that we seek to go above and beyond the minimum standards for the jurisdictions in which we operate. Our code was approved by our Board Audit Committee. It is publicly available at www.aib.ie/sustainability
DATA PROTECTION POLICY	Our Data Protection Policy is part of the Regulatory Compliance Risk Management Framework. It aims to ensure that processes and controls are in place to minimise the risk of unfair or unlawful data processing and that all employees understand the responsibilities and obligations that must be adhered to under data protection regulation. It applies to our entire operations, including our suppliers. Our policy was approved by our Group Risk Committee. While this policy is not publicly available, our Data Protection Notice and other information, including information on customers' data rights, is available at www.aib.ie/dataprotection
RESPONSIBLE SUPPLIER CODE	Our Responsible Supplier Code sets out our expectation that our suppliers conduct their business in a fair, lawful, and honest manner with all their stakeholders, employees, subcontractors and any other third parties. It describes our expectations on human rights, health, safety and welfare, supply chain, and inclusion and diversity. Suppliers are expected to abide by it, along with all applicable laws, regulations and standards in the countries in which their business is conducted. Our suppliers may be asked to provide a written attestation that they have read and understood the Code, and will abide by it. Our code was endorsed by our Chief Executive Officer. It is publicly available on our suppliers portal at www.aib.ie/suppliers
MODERN SLAVERY STATEMENT	Our Modern Slavery and Human Trafficking Statement is released annually. AIB recognises our responsibility to comply with all relevant legislation, including the UK Modern Slavery Act 2015. Our statement was approved by our Board. It is available at https://aib.ie/group/modern-slavery-statement
KPIs	We report on these performance indicators annually in our Sustainability Report: • Breaches of data privacy: In 2022, we received 13 complaints from the data protection supervisory authorities in Ireland and the UK regarding breaches of data privacy, the majority of which related to 2021. • Personal data breaches: In 2022, we reported 140 breaches under GDPR to the data protection supervisory authorities in Ireland and the UK. While these may include losses of customer data or inaccuracy, the majority reported related to unauthorised disclosure of personal data.
PRINCIPAL RISKS	→ **People and Culture Risk** (see pages 205 to 206), and **Regulatory Compliance Risk** (see pages 204 to 205)

ANTI-BRIBERY & CORRUPTION

FINANCIAL CRIME FRAMEWORK	Our Financial Crime Framework includes our Financial Crime Policy and Standards on Anti-Money Laundering/ Countering the Financing of Terrorism, Fraud, Anti-Bribery and Corruption and Sanctions. The policy and standards are embedded within business operating procedures, and subject to at least an annual content verification to ensure that they are kept up to date. All employees and Directors are made aware of our financial crime policy and standards. Employees must complete mandatory e-learning annually. Our Money Laundering Reporting Officer (MLRO) provides comprehensive annual training to the Board. Bespoke training tailored to consider the financial crime risks relevant to specific roles is also provided to key employees. To further enhance awareness, we issue financial crime bulletins periodically to our employees, outlining key trends and other topical items. Our policy was approved by our Board Risk Committee.
CONFLICTS OF INTEREST POLICY	Our Conflicts of Interest Policy provides a clear statement of the standards for recognising and preventing potential conflicts of interest and for managing conflicts of interests where they cannot be avoided. Conflicts of interest situations may arise between the interests of two or more parties (whether directly or indirectly involved) in any situation. Our policy was approved by our Group Risk Committee. It is publicly available at www.aib.ie/sustainability
KPIs	Our key performance indicators for these matters include: • Conflicts of Interests training – 96% completion rate in 2022. We target a completion rate of 90% annually, to allow for those who are on leave during the training period. On returning from leave, they are expected to complete the training. • Incidents of corruption – In 2022, two incidents of internal fraud were identified, all of which related to 2022. They were reviewed through appropriate governance and appropriate actions taken. None resulted in a material monetary loss.
PRINCIPAL RISKS	→ **Regulatory Compliance Risk** (see pages 204 to 205) and **Conduct Risk** (see pages 203 to 204)

WORLD ECONOMIC FORUM STAKEHOLDER CAPITALISM METRICS

As part of our commitment to transparency and our Pledge to Do More, we report against the core World Economic Forum Stakeholder Capitalism Metrics.

CLIMATE & ENVIRONMENT

PLANET

Theme	Metric	Response
CLIMATE CHANGE	**Greenhouse Gas (GHG) Emissions** For all relevant greenhouse gases (carbon dioxide, methane, nitrous oxide, F-gases etc.), report in metric tonnes of carbon dioxide equivalent (tCO2e) GHG Protocol Scope 1 and Scope 2 emissions. Estimate and report material upstream and downstream (GHG Protocol Scope 3) emissions where appropriate.	For our most up-to-date GHG Scope 1, 2 and 3 GHG emissions data, see the Metrics and Targets section of our TCFD disclosures on pages 39 to 41 of this report. More detailed information is also available in the ESG Supporting Data section of our 2022 Sustainability Report – page 99.
NATURE LOSS	**TCFD Implementation** Fully implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). If necessary, disclose a timeline of at most three years for full implementation. Disclose whether you have set, or have committed to set, GHG emissions targets that are in line with the goals of the Paris Agreement – to limit global warming to well below 2°C above pre-industrial levels and pursue efforts to limit warming to 1.5°C – and to achieve Net Zero emissions before 2050.	Please refer to our disclosures in the TCFD section of this report. Further information is also available in the Climate & Environment section of our 2022 Sustainability Report.
	Land use and ecological sensitivity Report the number and area (in hectares) of sites owned, leased or managed in or adjacent to protected areas and/or key biodiversity areas (KBAs).	AIB operates sites in Ireland, Northern Ireland, Great Britain and the United States of America, all of which have been mapped to KBAs. We have identified one site in Northern Ireland (0.082 hectares) with a property which is adjacent to a KBA with marine and terrestrial attributes. The property is a leasehold office, located within a shopping centre which is multi-tenanted. Based on our analysis and on the nature of our operations (i.e. offices), the sites of our operations do not represent a heightened risk of adverse impacts on biodiversity. For more information, see the ESG Supporting Data section of our 2022 Sustainability Report - page 100.
FRESH WATER AVAILABILITY	**Water consumption and withdrawal in water-stressed areas** Report for operations where material: megalitres of water withdrawn, megalitres of water consumed and the percentage of each in regions with high or extremely high baseline water stress, according to the World Resources Institute (WRI) Aqueduct water risk atlas tool. Estimate and report the same information for the full value chain (upstream and downstream) where appropriate.	We report discharged water as water consumed. We rely on municipal water networks for our water demand. There are no other sources of withdrawals. All water data is reported one year in arrears. In 2021, AIB withdrew and consumed 76.8 megalitres of water from our global operations[1]. Of this, 0.9% of water withdrawn and consumed was from high water-stressed regions in Great Britain, according to the WRI Aqueduct water risk atlas tool. At 31 January 2023, the tool did not indicate that any of our operations in Great Britain were in an extremely high water-stressed region. None of our operations in Ireland, where AIB operates predominantly, Northern Ireland or the United States are located in a region of high/extremely high water stress. For more information, see the ESG Supporting Data section of our 2022 Sustainability Report - page 100.

1. Our 2021 data excludes Goodbody.

ECONOMIC AND SOCIAL INCLUSION

PROSPERITY

Theme | **Metric** | **Response**

EMPLOYMENT AND WEALTH GENERATION

Absolute number and rate of employment

Total number and rate of new employee hires during the reporting period, by age group, gender, other indicators of diversity and region.

Total number and rate of employee turnover during the reporting period, by age group, gender, other indicators of diversity and region

	Hires 2022		Leaves 2022	
	Number	Rate	Number	Rate
<30 yrs	1,360	65%	683	46%
30-50 yrs	680	32%	639	43%
>50 yrs	56	3%	165	11%
Female	1,072	51%	734	49%
Male	1,024	49%	753	51%
Ireland	1,989	95%	1,310	88%
United Kingdom	106	5%	168	11%
United States of America	1	—%	9	1%

The above data does not include Goodbody or Payzone employees. Further data on our employees is set out in our 2022 Sustainability Report on pages 92 to 95.

Economic contribution

1. Direct economic value generated and distributed, on an accruals basis, covering the basic components for AIB's global operations, ideally split out by: revenues; operating costs; employee wages and benefits; payments to providers of capital; payments to government; community investment.
2. Financial assistance received from the government: total monetary value of financial assistance received by AIB from any government during the reporting period.

In 2022, AIB generated and distributed direct economic value as follows:

	€m
Revenues	2,913
Net credit impairment charge	(7)
Income from equity accounted investments	37
Direct economic value generated	**2,943**
Operating costs (excluding community investments)	(759)
Employee wages and benefits	(797)
Payments to providers of capital	(278)
Payments to government	(188)
Community investment	(11)
Direct economic value distributed	**(2,033)**

Information on the components of economic contribution for the Group is set out in ESG Supporting Data (Finance Data), in our 2022 Sustainability Report.

AIB did not receive financial assistance (including tax relief and tax credits, subsidies, investment grants, research and development grants, financial assistance from export credit agencies, financial incentives, or other financial benefits received/receivable) from any government in 2022. The nature of the Group's relationship with the Irish Government is set out in note 47(g) Related party transactions – Summary of the relationship with the Irish Government.

Financial investment contribution

Total capital expenditures (CapEx) minus depreciation, supported by narrative to describe the company's investment strategy.

Share buybacks plus dividend payments, supported by narrative to describe the company's strategy for returns of capital to shareholders.

For FY2022, total CapEx minus depreciation was (€51m). CapEx for the year included additions to property and plant of €32m, additions to intangibles of €174m, depreciation charge for the year on property, plant and equipment of (€39m) and amortisation for the year on intangible assets of (€218m). AIB continues to invest significantly to transform itself into a market-leading technology-driven bank with infrastructure that is is both secure and resilient. These investments have focused on enhancing the customer experience. The current investment strategy approach encompasses i) regulatory change; ii) cyber; iii) transformation; and iv) inorganics; and includes the following areas:

- transforming the Bank's business and personal credit processes and technologies;
- best-in-class personal and business mobile app and payments platform, and,
- continuing to streamline and digitalise the mortgage customer journey.

In addition, the bank's property strategy has focused on adapting to an agile model both in terms of IT solutions and a location that allows us to bring colleagues together to drive collaboration and efficiency to deliver for our customers.

For FY2022, there were €122m dividends paid on ordinary shares, €91m buyback of ordinary shares and €65m of distributions paid on other equity instruments (AT1 coupons). The company's strategy for ordinary shareholder distributions is a policy of 40-60% payout of attributable earnings, subject to regulatory approval. Any decision on the balance between dividends and buybacks in any year will be assessed at the appropriate time.

ECONOMIC AND SOCIAL INCLUSION CONTINUED

PROSPERITY

Theme	Metric	Response
INNOVATION IN BETTER PRODUCTS AND SERVICES	**Total R&D Expenses (€)** Total costs related to research and development.	AIB is keenly focused on implementing the Sustainable Communities pillar of our Group strategy, which has a strong focus on financing our customers' transition to a low-carbon economy. We have invested in a suite of sustainable finance options, continue to build our understanding of climate risk and are adapting our systems and processes to capture ESG data. In addition, we have a sustained programme of investment in IT to support our digitalisation strategy and the resilience of our business systems.
COMMUNITY AND SOCIAL VITALITY	**Total tax paid** The total global tax borne by the company, including corporate income taxes, property taxes, non-creditable VAT and other sales taxes, employer-paid payroll taxes, and other taxes that constitute costs to the company, by category of taxes.	Global tax paid by AIB for FY2022:

		€m
Corporate income taxes		19
Property taxes		–
Non-creditable VAT and other sales taxes		127
Employer-paid payroll taxes		75
Other taxes	– Bank levy	37
	– Taxes related to customer redress	10
Total		**268**

FUTURE PROOF BUSINESS

PRINCIPLES OF GOVERNANCE

Theme	Metric	Response
GOVERNING PURPOSE	**Setting Purpose** The company's stated purpose, as the expression of the means by which a business proposes solutions to economic, environmental and social issues. Corporate purpose should create value for all stakeholders, including shareholders.	AIB's Purpose is to back our customers to achieve their dreams and ambitions. Our Purpose was developed by the Group's Executive Committee and approved by the Group's Board in 2017. In 2018, our purpose was systematically rolled out across the Group. Following consultation with employees at all levels, the Executive Committee updated our values, each with associated behaviours, in March 2020.
QUALITY OF GOVERNING BOARD	**Governance body composition** Composition of the highest governance body and its committees by: competencies relating to economic, environmental and social topics; executive or non-executive; independence; tenure on the governance body; number of each individual's other significant positions and commitments, and the nature of the commitments; gender; membership of under-represented social groups; and stakeholder representation.	See page 177 re Board Leadership and Company Purpose.
STAKEHOLDER ENGAGEMENT	**Material issues impacting stakeholders** A list of the topics that are material to key stakeholders and the company, how the topics were identified and how the stakeholders were engaged.	In our Materiality Exercise, completed in 2021, we considered 26 topics, agreed following an internal and external best practice review. The process identified 12 topics of material importance for both our stakeholders and AIB, which align to our strategy and commitments. Given our relevance and the strategic focus we place on the role of AIB in our communities, we also report on community support: • Ensure a climate resilient and responsive business model • Products and services to address environmental issues • Responsible lending and investments • Usability of services and accessibility of products • Enable customers to make better informed financial decisions • Housing • Community support • Customer experience • Digitalisation and interconnectivity • Cyber security and business system resilience • Protect our customers' data and privacy • Talent attraction, retention and development • Corporate governance and accountability Further details on how we manage each of our material topics can be found in our 2022 Sustainability Report.

FUTURE PROOF BUSINESS CONTINUED

PRINCIPLES OF GOVERNANCE

Theme	Metric	Response
ETHICAL BEHAVIOUR	**Anti-corruption** 1. Total percentage of governance body members, employees and business partners who have received training on AIB's anti-corruption policies and procedures, broken down by region: a) total number and nature of incidents of corruption confirmed during the current year, but related to previous years; and b) total number and nature of incidents of corruption confirmed during the current year, related to this year. 2. Discussion of initiatives and stakeholder engagement to improve the broader operating environment and culture, in order to combat corruption.	Anti-bribery and corruption training is included in our Conflicts of Interest training for employees, while the Board received stand-alone training in 2022. By year end 100% of our Board, 98% of our employees and 91% of our business partners had completed our training. For more details, see ESG Supporting Data (other data) in our 2022 Sustainability Report. In 2022, two incidents of internal fraud were identified, all of which related to 2022. They were reviewed through appropriate governance and appropriate actions taken. None resulted in a material monetary loss. In 2022 our Anti-Bribery and Corruption Policy was incorporated into our Financial Crime Framework. Together with our Code of Conduct and our Conflicts of Interest Policy it helps to build awareness across the organisation to assist in combating corruption. Our Speak Up (whistleblowing) Policy and training clearly sets out how our employees and suppliers can raise any concerns. Other stakeholders can raise concerns through our complaints process.
	Protected ethics advice and reporting mechanisms A description of internal and external mechanisms for: 1. seeking advice about ethical and lawful behaviour and organisational integrity; and 2. reporting concerns about unethical or unlawful behaviour and lack of organisational integrity.	Our key mechanism for seeking advice about ethical and lawful behaviour and on reporting concerns is our Speak Up (whistleblowing) Policy and process. This is underpinned by our Code of Conduct, which sets out clear expectations for how we behave and how we do business. The code guides our behaviours and emphasises our commitment to acting ethically, honestly and with integrity while demonstrating trustworthiness. All employees are required to complete mandatory training on both our Code of Conduct and on Speak Up to ensure awareness and understanding of what is expected and how to raise any concerns. Our Speak Up Policy and our Code of Conduct are publicly available at www.aib.ie/sustainability.

FUTURE PROOF BUSINESS CONTINUED

PEOPLE

<table>
<tr><th>Theme</th><th>Metric</th><th>Response</th></tr>
<tr><td>RISK AND OPPORTUNITY OVERSIGHT</td><td>Integrating risk and opportunity into business process
Company risk factor and opportunity disclosures that clearly identify the principal material risks and opportunities facing the company specifically (as opposed to generic sector risks), the company appetite in respect of these risks, how these risks and opportunities have moved over time and the response to those changes. These opportunities and risks should integrate material economic, environmental and social issues, including climate change and data stewardship (which includes responsibility for personal data, as well as the use and governance of artificial intelligence and cyber security).</td><td>For insights into how we integrate climate risk into our business processes, see the TCFD section of this report, and for data stewardship see the Future Proof Bank section of our Sustainability Report 2022.</td></tr>
<tr><td rowspan="4">DIGNITY AND EQUALITY</td><td>Inclusion & Diversity (%)
Percentage of employees per employee category, by age group, gender and other indicators of diversity (e.g. ethnicity).</td><td>
<table>
<tr><th>Employees (by age)</th><th><30 yrs</th><th>30-50 yrs</th><th>>50 yrs</th></tr>
<tr><td>Senior management</td><td>—%</td><td>65%</td><td>35%</td></tr>
<tr><td>Junior management</td><td>1%</td><td>71%</td><td>28%</td></tr>
<tr><td>Non-management</td><td>25%</td><td>59%</td><td>16%</td></tr>
</table>
<table>
<tr><th>Employees (by gender)</th><th>Female</th><th>Male</th></tr>
<tr><td>Senior management</td><td>37 %</td><td>63 %</td></tr>
<tr><td>Junior management</td><td>45 %</td><td>55 %</td></tr>
<tr><td>Non-management</td><td>59 %</td><td>41 %</td></tr>
</table>
AIB does not currently report diversity by other indicators such as ethnicity. The above data does not include Goodbody or Payzone employees. We have an ongoing strategic target for gender balance in our Board, ExCo, and all management. Further data on diversity is set out in our 2022 Sustainability Report on pages 67 to 70.</td></tr>
<tr><td>Pay equality
Ratio of the basic salary and remuneration for each employee category by significant locations of operation for priority areas of equality: women to men, minor to major ethnic groups, and other relevant equality areas.</td><td>AIB does not currently report on pay equality, however we report on Gender Pay Gap. The Gender Pay Gap represents the difference between both the mean (average) and the median (midpoint of all wages) hourly pay of male and female employees. Our 2022 Gender Pay Gap (GPG) for AIB RoI is 18.4% mean (average) and 14.4% median (midpoint) based on our snapshot date of 30.06.2022. The primary reason for our GPG is due to our organisational shape with a significantly larger number of females in lower level roles and higher numbers of males in more senior positions. We are committed to progressing our gender balance action plan building upon our achievements to date. For more information, see our RoI Gender Pay Gap report on www.aib.ie</td></tr>
<tr><td>Wage level
1. Ratios of standard entry-level wage by gender compared to local minimum wage.
2. Ratio of the annual total compensation of the CEO to the median of the annual total compensation of all its employees, except the CEO.</td><td>We recognise that fair compensation and benefits contribute to the economic wellbeing of employees. The ratio of AIB’s standard entry-level wage compared to local minimum wage is: 1.39:1 (Ireland); 1.05:1(NI); 1.12:1 (GB); and, 1.23:1 (London). In AIB, the standard entry-level wage is equal for female and male employees. Data excludes Payzone and Goodbody employees. The ratio of the annual total compensation of the CEO to the median of the annual total compensation of all AIB employees, except the CEO, is 9.61:1.Our Chief Executive Officer’s total compensation is set out on page 113.
For more information, see the ESG Supporting Data (Employee data) section of our 2022 Sustainability Report.</td></tr>
<tr><td>Risk for incidents of child, forced or compulsory labour
An explanation of the operations and suppliers considered to have significant risk for incidents of child labour, forced or compulsory labour. Such risks could emerge in relation to:
a. type of operation (such as manufacturing plant) and type of supplier; and
b. countries or geographic areas with operations and suppliers considered at risk.</td><td>In 2022, AIB engaged with Shift, the leading centre of excellence on the UN Guiding Principles, to establish a process of identifying suppliers most at risk of enabling Modern Slavery. Using this process, we completed an exercise to evaluate our supply chain. In 2022, through our human rights due diligence exercise, we identified 40 suppliers which may represent higher risk for modern slavery due to their industry. As a result, we have commenced enhanced due diligence on these suppliers to enable us to determine whether they represent an actual high risk and if any further action will be required.</td></tr>
</table>

FUTURE PROOF BUSINESS CONTINUED

PEOPLE

Theme	Metric	Response
HEALTH AND WELLBEING	**Health and safety** 1. The number and rate of fatalities as a result of work-related injury; high-consequence work-related injuries (excluding fatalities); recordable work-related injuries; main types of work-related injury; and the number of hours worked. 2. An explanation of how AIB facilitates workers' access to non-occupational medical and healthcare services, and the scope of access provided for employees and workers.	For all employees, and for workers who are not employees but whose work and/or workplace is controlled by AIB, we reported the following for FY2021: Fatalities from work-related injury: Number 0, Rate 0 Recordable work-related injuries: Number 14, Rate 0.64 The main types of work-related injuries include slips/trips/falls, trapped/crushed, hit against something fixed or stationary. We use FY2021 data which is our most current available. Please note the rate is calculated using an estimate of the number of hours worked, and indicates the number of work-related injuries per 500 full-time worked in 2021. Recordable work-related injuries refer to those injuries which required reporting to the relevant statutory body for the jurisdiction. AIB does not report high-consequence work-related injuries. Further details on health and safety matters are set out in our 2021 Health & Safety Report available at www.aib.ie/sustainability AIB provides access to additional professional, emotional and wellbeing support via an external provider, Workplace Options, in addition to an occupational health service provided to employees by Medmark.
SKILLS FOR THE FUTURE	**Training provided** 1. Average hours of training per person that AIB's employees have undertaken during the reporting period, by gender and employee category (total number of hours of training provided to employees divided by the number of employees). 2. Average training and development expenditure per full-time employee (total cost of training provided to employees divided by the number of employees).	AIB has a proud tradition of investing in best-in-class training and development to support employees to perform their best work, and reach their potential. Our objective is to make learning inclusive and accessible to everyone who works in AIB, and our employees access a wide range of training, skills development and leadership development programmes. In 2022, our employees completed on average 35 hours of training each (females 34.8 hours, males 35.3 hours). These training hours include all training types such as instructor-led training, virtual instructor-led training, SMT, iLearn: web-based training, and external training, and relates to permanent and temporary employees. The average training spend per FTE employee was c. €880.

BUSINESS REVIEW

	Page
Operating and financial review	56
Capital	71

BUSINESS REVIEW –
1. OPERATING AND FINANCIAL REVIEW

BASIS OF PRESENTATION

The operating and financial review is prepared using IFRS and non-IFRS measures to analyse the Group's performance, providing comparability year on year. These performance measures are consistent with those presented to the Board and Executive Committee. Non-IFRS measures include management performance measures which are considered Alternative Performance Measures ("APMs"). APMs arise where the basis of calculation is derived from non-IFRS measures. A description of the Group's APMs and their calculation is set out on page 69. These measures should be considered in conjunction with IFRS measures as set out in the consolidated financial statements from page 223. A reconciliation between the IFRS and management performance summary income statements is set out on page 70.

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

Basis of calculation

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

Management performance - summary income statement	**2022 € m**	2021 € m	% *change*
Net interest income	**2,159**	1,794	*20*
Other income[1]	**736**	590	*25*
Total operating income[1]	**2,895**	2,384	*21*
Personnel expenses[1]	**(779)**	(738)	*6*
General and administrative expenses[1]	**(575)**	(512)	*12*
Depreciation, impairment and amortisation[1]	**(305)**	(284)	*7*
Total operating expenses[1]	**(1,659)**	(1,534)	*8*
Bank levies and regulatory fees[1]	**(155)**	(162)	*-5*
Operating profit before impairment losses and exceptional items[1]	**1,081**	688	*57*
Net credit impairment (charge)/writeback	**(7)**	238	*—*
Operating profit before exceptional items[1]	**1,074**	926	*16*
Income from equity accounted investments	**37**	21	*76*
Profit before exceptional items[1]	**1,111**	947	*17*
Restitution costs	**(94)**	(173)	
Restructuring costs	**(93)**	(132)	
Inorganic transaction costs	**(53)**	(21)	
Gain/(loss) on disposal of loan portfolios	**36**	(5)	
Other	**(27)**	13	
Total exceptional items[1]	**(231)**	(318)	
Profit before taxation	**880**	629	*40*
Income tax (charge)/credit	**(115)**	16	*—*
Profit for the year	**765**	645	*19*

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(1) Performance has been adjusted to exclude items viewed as exceptional by management and which management view as distorting comparability of performance year on year. The adjusted performance measure is considered an APM.

Net interest income

Net interest income

€2,159m

Net interest income	**2022 € m**	2021 € m	*% change*
Interest income[1]	**2,332**	1,797	*30*
Interest expense[1]	**(173)**	(3)	—
Net interest income	**2,159**	1,794	*20*
Average interest earning assets	**124,210**	113,401	*10*
	%	%	Change
Net interest margin (NIM)	**1.74**	1.58	*0.16*

Net interest income

€2,159m

Net interest income of € 2,159 million increased by € 365 million or 20% compared to 2021.

Interest income
Interest income of € 2,332 million in 2022 increased by € 535 million compared to 2021 primarily due to:

- Increased asset yields driven by the higher euro, sterling and US dollar interest rates.
- Higher average customer loan volumes reflecting the acquisition of performing Ulster Bank corporate and commercial loans and as new lending exceeded redemptions and disposals.

In the second half of 2022 the ECB increased euro interest rates by 250 basis points. During 2022 the Bank of England increased the base rate by 325 basis points and the Federal Reserve increased the federal funds rate by 425 basis points.

Interest expense
Interest expense of € 173 million in 2022 increased by € 170 million compared to 2021. The increase in funding costs was primarily due to:

- Higher subordinated liabilities and other debt issued funding costs.
- Deposits by banks which reflects the impact of TLTRO III funding including an additional income benefit of € 26 million recognised in 2022 (2021: € 66 million additional income benefit following the achievement of relevant lending targets).[2]

Customer accounts interest includes the impact of the negative pricing strategy which was discontinued in the second half of 2022.

Net interest margin

1.74%

NIM increased by 16 bps to 1.74% in 2022 compared to 1.58% in 2021 due to:

- Higher interest income primarily due to the impact of higher interest rate environment c. +42bps partly offset by;
- Increase in interest expense c. -10 bps;
- Higher average interest earning assets c. -16 bps.

Average interest earning assets of € 124.2 billion in 2022 increased by € 10.8 billion from 2021. This was due to an increase in excess liquidity placed with central banks driven by higher non-interest bearing customer account balances and a € 6 billion TLTRO III funding drawdown in June 2021.

Average balance sheet	**Year ended 31 December 2022**			Year ended 31 December 2021		
Assets	**Average balance € m**	**Interest[1] € m**	**Average rate %**	Average balance € m	Interest[1] € m	Average rate %
Loans and advances to customers	**58,681**	**1,957**	**3.33**	57,697	1,846	3.20
Investment securities	**16,456**	**192**	**1.17**	17,676	65	0.37
Loans and advances to banks[3]	**49,073**	**183**	**0.37**	38,028	(114)	(0.30)
Average interest earning assets	**124,210**	**2,332**	**1.84**	113,401	1,797	1.58
Non-interest earning assets	**7,754**			6,294		
Total average assets	**131,964**	**2,332**		119,695	1,797	
Liabilities & equity						
Deposits by banks[3]	**11,108**	**(11)**	**(0.10)**	7,722	(102)	(1.32)
Customer accounts	**48,419**	**(11)**	**(0.02)**	48,439	(3)	(0.01)
Other debt issued	**6,206**	**134**	**2.16**	5,587	55	0.98
Subordinated liabilities	**1,454**	**50**	**3.47**	1,553	41	2.65
Lease liabilities	**315**	**11**	**3.35**	364	12	3.28
Average interest earning liabilities	**67,502**	**173**	**0.26**	63,665	3	—
Non-interest earning liabilities	**51,443**			42,518		
Equity	**13,019**			13,512		
Total average liabilities & equity	**131,964**	**173**		119,695	3	
Net interest income		**2,159**	**1.74**		1,794	1.58

(1) Negative interest income on assets amounting to € 96 million in 2022 (2021: € 129 million) is offset against interest income. Negative interest expense on liabilities amounting to € 83 million in 2022 (2021: € 158 million) is offset against interest expense.
(2) For further information see note 4 ‘Interest and similar income’ in the consolidated financial statements.
(3) Loans and advances to banks and Deposits by banks include Securities financing.

Other income

Other income(1)

€736m

Other income(1)	**2022** **€ m**	2021 € m	% *change*
Net fee and commission income	**588**	480	*22*
Net gain on equity investments (FVTPL)	**88**	58	*51*
Net trading income/(loss)	**36**	15	—
– Loan acquisition forward contract	**62**	—	
– Other	**(26)**	*15*	
Net gain on loans and advances to customers (FVTPL)	**13**	20	*-33*
Dividend income	**2**	3	*-25*
Other operating income	**9**	14	*-38*
Other income	**736**	590	*25*

Other income(1)

€736m

Other income of € 736 million increased by € 146 million or 25% compared to 2021. This reflects the full year impact of Goodbody following acquisition in the second half of 2021 and an underlying increase of € 107 million or 19%.

Net fee and commission income	**2022** **€ m**	2021 € m	% *change*
Customer accounts	**226**	208	*9*
Card income	**112**	78	*45*
Customer related foreign exchange	**83**	67	*24*
Lending related fees	**50**	50	*1*
Payzone	**17**	15	*11*
Other fees and commissions	**37**	38	*-3*
	525	456	*15*
Goodbody	**63**	24	—
Net fee and commission income	**588**	480	*22*

Net fee and commission income of € 588 million in 2022 increased by € 108 million compared to 2021 reflecting the full year impact from Goodbody and an increase in underlying net fee and commission income of € 69 million or 15%.

The increase in underlying net fee and commission income primarily reflected higher transaction volumes driven by a recovery in economic activity and the onboarding of customers from the banks exiting the Irish market as well as higher card interchange fees.

Goodbody fee income of € 63 million reflects a full year end impact following acquisition in the second half of 2021 (2021: € 24 million for four months) and is comprised of stockbroking client fees and commissions as well as asset management and advisory fees. Fee income in 2022 was negatively impacted by challenging external market conditions.

Net gain on equity investments of € 88 million in 2022 (2021: € 58 million) included a gain of € 61 million following the partial conversion and disposal of Visa Inc Series B Preferred Stock.

Net trading loss (excluding the loan acquisition forward contract) of € 26 million in 2022 decreased by € 41 million compared to a net trading income of € 15 million in 2021 mainly due to unfavourable movements on non-customer foreign exchange contracts.

A gain of € 62 million was recognised in 2022 in respect of a forward contract to acquire corporate and commercial loans from Ulster Bank(2).

Net gain on loans and advances to customers (FVTPL) of € 13 million in 2022 (2021: € 20 million) represents income recognised on previously restructured loans carried at fair value through profit or loss.

Other operating income of € 9 million in 2022 includes a € 7 million gain on disposal of investment securities (2021: € 7 million gain).

IFRS basis

On an IFRS basis other income, including a net gain of € 18 million on exceptional items(1), was € 754 million in 2022 compared to € 582 million in 2021.

(1) Other income before exceptional items. A net gain of € 18 million on exceptional items in 2022 comprises a € 18 million net gain on disposal of loan portfolios (2021: Net loss on disposal of loan portfolios € 5 million).

(2) For further information see note 44 Fair value of financial instruments in the consolidated financial statements.

Operating expenses

Total operating expenses(1)

€1,659m

Operating expenses(1)	2022 € m	2021 € m	% *change*
Personnel expenses	779	738	*6*
General and administrative expenses	575	512	*12*
Depreciation, impairment and amortisation	305	284	*7*
Total operating expenses	1,659	1,534	*8*
Staff numbers at period end(2)	9,590	8,916	*8*
Average staff numbers(2)	9,221	9,154	*1*

Total operating expenses(1)

€1,659m

Total operating expenses of € 1,659 million increased by € 125 million compared to 2021. This reflects the full year impact of Goodbody following acquisition in the second half 2021 and an underlying increase of € 75 million or 5%.

Personnel expenses
Personnel expenses increased by € 41 million compared to 2021 primarily due to the full year impact of Goodbody of € 30 million. Personnel expenses excluding Goodbody increased € 11 million due to salary inflation partially offset by lower average staff numbers.

Staff numbers at 31 December 2022 were 8% higher than 31 December 2021 reflecting an increase in staff numbers to support higher business volumes, insourcing and an initial transfer of staff from Ulster Bank as part of the acquisition of the corporate and commercial loan portfolio.

General and administrative expenses
General and administrative expenses increased by € 63 million compared to 2021 driven by the full year impact of Goodbody, the cost of onboarding customers from banks exiting the Irish market, inflationary pressures and an increase in customer fraud related costs.

Depreciation, impairment and amortisation
Depreciation, impairment and amortisation increased by € 21 million compared to 2021.

Cost income ratio(1)

57%

Costs of € 1,659 million and income of € 2,895 million resulted in a cost income ratio of 57% in 2022 compared to 64% in 2021.

Bank levies and regulatory fees

€155m

Bank levies and regulatory fees	2022 € m	2021 € m
Irish bank levy	37	37
Deposit Guarantee Scheme	55	48
Single Resolution Fund	38	53
Other regulatory levies and charges	25	24
Bank levies and regulatory fees	155	162

Bank levies and regulatory fees of € 155 million decreased by € 7 million compared to 2021 primarily due to lower Single Resolution Fund (SRF) fees offset by higher Deposit Guarantee Scheme fees.

The SRF fee for 2022 reflected an industry wide increase in the target funding rate by the Single Resolution Board. The SRF fee in 2021 includes a provision of € 25 million following a reassessment of the liability due in respect of previous years.

IFRS basis
On an IFRS basis total costs, including bank levies and regulatory fees of € 155 million and the cost of exceptional items(3) of € 249 million, were € 2,063 million in 2022 compared to € 2,006 million in 2021. This results in a cost income ratio (IFRS basis) of 71% in 2022, compared to 84% in 2021.

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(1) Before bank levies and regulatory fees and exceptional items.
(2) Staff numbers are on a full time equivalent ("FTE") basis.
(3) The cost of exceptional items of € 249 million in 2022 (2021: € 310 million) comprised: Personnel expenses € 17 million (2021: € 58 million), General and administrative expenses € 195 million (2021: € 209 million) and Depreciation, impairment and amortisation € 37 million (2021: € 43 million).

Net credit impairment charge

€7m

There was a net credit impairment charge of € 7 million in 2022 comprising:

- a € 316 million charge in the second half of the year which incorporates post model adjustments to address emerging headwinds and downside risks from inflation and interest rate impacts on credit quality.
- a € 309 million writeback in the first half of the year reflecting the economic environment in Ireland with robust credit quality & repayments, updated macroeconomic assumptions as well as some release of post-model adjustments.

The net credit impairment charge of € 7 million in 2022 reflected a € 5 million charge on loans and advances to customers (net remeasurement of expected credit loss ("ECL") allowance charge of € 50 million and recoveries of amounts previously written-off of € 45 million) and a € 2 million charge on investment securities.

There was a net credit impairment writeback of € 238 million in 2021 comprising a € 233 writeback on loans and advances to customers (net remeasurement of ECL allowance writeback of € 158 million and recoveries of amounts previously written off of € 75 million) and a € 6 million writeback for off balance sheet exposures. There was also a € 1 million charge on securities financing.

For further information see pages 134 to 187 in the Risk Management section.

Income tax charge

€115m

The income tax charge was €115 million in 2022, representing an effective tax rate of 13%, compared to a tax credit of € 16 million in 2021. The tax credit in 2021 reflected an increase in the carrying value of deferred tax assets in respect of losses recognised in the UK in earlier years.

For further information see note 14 Taxation and note 27 Deferred taxation of the consolidated financial statements.

Total exceptional items

€231m

Total exceptional items	**2022** **€ m**	2021 € m
Restitution costs	**(94)**	(173)
Restructuring costs:	**(93)**	(132)
- Termination benefits	***(7)***	*(51)*
- Property transformation	***(44)***	*(58)*
- Loss on UK portfolio sale	***(18)***	*(10)*
- Other restructuring	***(24)***	*(13)*
Inorganic transaction costs	**(53)**	(21)
Gain/(loss) on disposal of loan portfolios	**36**	(5)
Other	**(27)**	13
Total exceptional items	**(231)**	(318)

These gains/costs were viewed as exceptional by management.

Restitution costs include a charge of €101 million related to a series of investment property funds (known as Belfry) which were sold to individual investors during the period 2002 to 2006, reflecting an increased provision for customer redress of € 82 million and associated costs of €19 million (2021 charge of € 100 million including € 25 million for legal and settlement costs). It also includes the writeback of customer redress provisions recognised in prior periods and costs relating to the tracker mortgage examination.

Restructuring costs reflect the implementation of the Group's strategy (Strategy 2023) including termination benefits, impairment and other costs associated with the reduction in the Group's property footprint, changes to the Retail network in ROI and the exit from the SME market in Great Britain.

In December 2020 the Group announced Strategy 2023 and outlined restructuring costs of c. €400 million to deliver annualised cost savings as a key driver in achieving the medium term targets. Restructuring costs of € 259 million have been incurred by the end of 2022.

Inorganic transaction costs includes costs associated with the acquisition of a portfolio of performing Ulster Bank corporate and commercial loans and the acquisition of a portfolio of performing Ulster Bank tracker (and linked) mortgages.

Gain/(loss) on disposal of loan portfolios relates to the disposals of non-performing loan portfolios.

Other in 2022 reflects a charge of € 27 million relating to the conclusion of the Central Bank of Ireland enforcement investigation in respect of tracker mortgages at AIB and EBS under which the Group agreed to pay a fine of € 96.7 million, with a provision of € 70 million having been recognised in prior years. In 2021 it reflected the writeback of a provision for regulatory fines.

Assets

Net loans to customers
€59.6bn

New lending
€12.6bn

Assets	31 Dec 2022 € bn	31 Dec 2021 € bn	% change
Gross loans to customers	**61.2**	58.4	*5*
ECL allowance	**(1.6)**	(1.9)	*-14*
Net loans to customers	**59.6**	56.5	*5*
Investment securities	**16.3**	16.9	*-4*
Loans and advances to banks	**39.7**	44.0	*-10*
Securities financing	**6.3**	3.9	*62*
Other assets	**7.9**	6.6	*21*
Total assets	**129.8**	127.9	*2*

Net loans to customers
€59.6bn

Net loans, excluding the negative impact of foreign exchange movements of € 0.3 billion, increased by € 3.1 billion compared to 31 December 2021 driven by the acquisition of loans from Ulster Bank and new lending exceeding redemptions partially offset by the disposal of non-performing and UK SME loans.

The Group has completed the acquisition of €2.1 billion of performing Ulster Bank corporate and commercial loans by 31 December 2022. The migration of the remaining eligible loans of €1.2 billion is expected to be largely complete by June 2023.

New lending
€12.6bn

New lending of € 12.6 billion in 2022 was € 2.2 billion or 22% higher than in 2021.

Mortgage lending of € 4.6 billion was 48% higher driven by strong Irish mortgage lending of € 4.5 billion, up 53%, representing a market share of 32%. Property related lending was up 50% to € 2.7 billion. Non-property lending of € 4.3 billion was 5% lower as higher renewable energy & infrastructure and corporate lending in Ireland was more than offset by lower syndicated and UK lending. Personal lending was up 10% to € 1.0 billion.

New lending comprises € 10.8 billion term lending in 2022 (€ 9.1 billion in 2021) and € 1.8 billion transaction lending (€ 1.3 billion in 2021).

Non-performing loans
€2.2bn

Non-performing loans ratio
3.5%

Non-performing loans decreased by € 0.9 billion or 31% to € 2.2 billion at 31 December 2022 primarily reflecting the disposal of loan portfolios of € 0.5 billion and redemptions of € 0.6 billion partially offset by net flow to non-performing of € 0.3 billion.

Legacy NPEs (exposures that entered into default prior to 31 December 2018) amount to € 0.2 billion or 0.4% of total loans at 31 December 2022.

Non-performing loans ratio
Non-performing loans as a percentage of gross loans to customers was 3.5% at 31 December 2022 compared to 5.4% at 31 December 2021.

ECL allowance
€1.6bn

Non-performing loans cover
35%

The ECL allowance on loans (at amortised cost) of € 1.6 billion at 31 December 2022 decreased from € 1.9 billion at 31 December 2021 primarily reflecting the disposal of non-performing loans in 2022.

Non-performing loans cover
The ECL allowance cover rate on non-performing loans has increased to 35% at 31 December 2022 compared to 32% at 31 December 2021.

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

Loans to customers	Performing loans € bn	Non-performing loans € bn	Loans to customers € bn
Gross loans (opening balance 1 January 2022)	**55.3**	**3.1**	**58.4**
New lending	**12.6**	**—**	**12.6**
Redemptions of existing loans	**(10.3)**	**(0.6)**	**(10.9)**
Portfolio acquisition	**2.1**	**—**	**2.1**
Portfolio disposals	**(0.3)**	**(0.5)**	**(0.8)**
Write-offs and restructures	**—**	**(0.1)**	**(0.1)**
Net movement to non-performing	**(0.3)**	**0.3**	**—**
Foreign exchange movements	**(0.3)**	**—**	**(0.3)**
Other movements	**0.2**	**—**	**0.2**
Gross loans (closing balance 31 December 2022)	**59.0**	**2.2**	**61.2**
ECL allowance	**(0.9)**	**(0.7)**	**(1.6)**
Net loans (closing balance 31 December 2022)	**58.1**	**1.5**	**59.6**

Assets *continued*

The tables below summarise the credit profile of the loan portfolio by asset class and include a range of credit metrics that the Group uses in managing the portfolio. Further information on the Group's risk profile and non-performing loans is available on pages 134 to 187 in the Risk management section.

	At amortised cost					At FVTPL(1)	
Loan portfolio profile **31 December 2022**	**Residential mortgages** **€ bn**	**Other personal** **€ bn**	**Property and construction** **€ bn**	**Non-property business** **€ bn**	**Total** **€ bn**	**Total** **€ bn**	**Total** **€ bn**
Gross loans to customers	**30.3**	**2.7**	**8.6**	**19.4**	**61.0**	**0.2**	**61.2**
Of which: Stage 2	***1.1***	***0.3***	***1.4***	***3.2***	***6.0***		***6.0***
Non-performing loans	***0.6***	***0.2***	***0.4***	***0.8***	***2.0***	***0.2***	***2.2***
Total ECL allowance	**0.3**	**0.2**	**0.3**	**0.8**	**1.6**		**1.6**
Total ECL allowance cover (%)	**0.9 %**	**6.5 %**	**3.7 %**	**4.3 %**	**2.7 %**		
ECL allowance cover Stage 2 (%)	**3.3 %**	**13.7 %**	**8.4 %**	**14.1 %**	**10.7 %**		
ECL allowance cover non-performing (%)	**31.2 %**	**64.4 %**	**29.3 %**	**34.7 %**	**35.1 %**		
31 December 2021	€ bn	€ bn	€ bn	€ bn	€ bn	€ bn	€ bn
Gross loans to customers	29.4	2.7	7.4	18.7	58.2	0.2	58.4
Of which: Stage 2	*1.5*	*0.2*	*1.4*	*3.7*	*6.8*		*6.8*
Non-performing loans	*1.0*	*0.2*	*0.6*	*1.1*	*2.9*	*0.2*	*3.1*
Total ECL allowance	0.4	0.2	0.3	1.0	1.9		1.9
Total ECL allowance cover (%)	1.3 %	8.2 %	4.3 %	5.2 %	3.2 %		
ECL allowance cover Stage 2 (%)	2.8 %	15.5 %	6.6 %	14.4 %	10.4 %		
ECL allowance cover non-performing (%)	30.1 %	64.4 %	27.5 %	28.6 %	31.9 %		

Investment securities

Investment securities of € 16.3 billion, primarily held for liquidity purposes, have decreased by € 0.6 billion from 31 December 2021 due to the impact of negative fair value movements whilst purchases exceeded maturities and disposals during the year.

Loans and advances to banks

Loans and advances to banks of € 39.7 billion, including € 32.6 billion of cash and balances at central banks, were € 4.3 billion lower than 31 December 2021. The reduced placement with banks was primarily due to the repayment of TLTRO funding, loan book growth and increased securities financing partly offset by higher customer account balances and proceeds from the issuance of debt.

Securities financing

Securities financing of € 6.3 billion has increased by € 2.4 billion from 31 December 2021.

Other assets

Other assets of € 7.9 billion comprised:

- Deferred tax assets of € 3.0 billion(2), € 0.2 billion increase from 31 December 2021.
- Derivative financial instruments of € 2.5 billion, € 1.6 billion increase from 31 December 2021 primarily reflecting interest rate movements in the period.
- Remaining assets of € 2.4 billion, decreased by € 0.5 billion from 31 December 2021.

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(1) Total loans at FVTPL relate predominantly to the property and construction asset class.
(2) For further information see note 2 Critical accounting judgements and estimates 'Deferred taxation' in the consolidated financial statements.

Liabilities & equity

Customer accounts	Equity
€102.4bn	**€12.3bn**

Liabilities & equity	31 Dec 2022 € bn	31 Dec 2021 € bn	% change
Customer accounts	102.4	92.9	*10*
Deposits by banks	0.5	10.4	*-95*
Debt securities in issue	7.2	5.9	*22*
Subordinated liabilities	1.4	1.6	*-12*
Other liabilities	6.0	3.4	*77*
Total liabilities	117.5	114.2	*3*
Equity	12.3	13.7	*-10*
Total liabilities & equity	129.8	127.9	*1*

	%	%	Change
Loan to deposit ratio	58	61	*-3*

Customer accounts

€102.4bn

Customer accounts, excluding the negative impact of currency movements of € 0.5 billion, increased by € 10.0 billion compared to 31 December 2021 driven by an increase in Retail Banking and Capital Markets, which includes inflows from banks exiting the Irish market, offset by the expected reduction in balances in AIB UK due to the exit from the SME market in Great Britain.

Loan to deposit ratio
The loan to deposit ratio decreased to 58% at 31 December 2022 compared to 61% at 31 December 2021 as growth in customer accounts outpaced the growth in loans to customers during the year.

Deposits by banks
Deposits by banks of € 0.5 billion decreased by € 9.9 billion compared to 31 December 2021 driven by the repayment of TLTRO funding of € 10.0 billion in December 2022.

Debt securities in issue
Debt securities of € 7.2 billion increased by € 1.3 billion from 31 December 2021 primarily due to further MREL related issuances of € 3.2 billion, including € 2.5 billion social and green bond issuances, partly offset by maturities of € 0.75 billion and buybacks of € 0.85 billion.

Subordinated liabilities
Subordinated liabilities of € 1.6 billion have decreased by € 0.2 billion from December 2021.

Other liabilities
Other liabilities of € 6.0 billion comprised:

- Derivative financial instruments of € 3.0 billion, € 1.9 billion increase from 31 December 2021 primarily reflecting interest rate movements in the period.
- Securities financing € 0.9 billion, € 0.9 billion increase from 31 December 2021
- Remaining liabilities of € 2.1 billion, € 0.2 billion reduction from 31 December 2021.

Equity

€12.3bn

Equity decreased by € 1.4 billion to € 12.3 billion compared to € 13.7 billion at 31 December 2021

The table below sets out the movements to 31 December 2022.

Equity	€ bn
Opening balance (1 January 2022)	13.7
Profit for the year	0.8
Distributions paid	(0.3)
Other comprehensive income:	(1.9)
Cashflow hedging reserves	(1.6)
Investment securities reserves	(0.2)
Foreign currency translation reserve	(0.1)
Closing balance (31 December 2022)	12.3

The decrease in the cash flow hedging reserves during the year primarily reflected fair value movements on receive fixed interest rate swaps driven by an increase in euro and sterling interest rates and additional hedging activity.

Segment overview

The Group's performance is managed and reported across the Retail Banking, AIB Capital Markets ("Capital Markets"), AIB UK and Group segments. Segment performance excludes exceptional items.

Retail Banking

Our leading Irish retail franchise provides a comprehensive range of products and services to over 2.9 million customers delivered through our branch, digital and phone banking channels; with an expanded reach into the retail customer base via EBS, Haven, AIB Merchant Services, Payzone, Nifti and AIB Life.

- Homes & Consumer are responsible for meeting the homes and everyday banking needs of customers in Ireland by delivering innovative products, propositions and services and for growing our market leading positions. Our aim is to achieve a seamless and transparent customer experience across all our products and services including mortgages, current accounts, personal lending, payments and credit cards, deposits, insurance and wealth.
- SME serves our micro and small SME customers through our sector-led strategy and local expertise with an extensive product and services offering. Our aim is to help our customers create and build sustainable businesses in their communities.
- FSG is our dedicated centre of excellence for the management of the vast majority of the Group's non-performing exposures (NPEs), with the objective of supporting our customers in difficulty and delivering the Group's strategy to reduce NPEs.

Capital Markets

Capital Markets provides institutional, corporate and business banking services to the Group's larger customers and customers requiring specific sector or product expertise. Capital Markets' relationship driven model serves customers through sector specialist teams including: corporate banking, real estate finance, business banking and energy, climate action & infrastructure.

In addition to traditional credit products, Capital Markets offers customers foreign exchange and interest rate risk management products, cash management products, trade finance, mezzanine finance, structured and specialist finance and equity investments, as well as Private Banking services and advice. Capital Markets also has syndicated and international finance teams based in Dublin and in New York. In 2021 Goodbody became part of Capital Markets, bringing additional capability in wealth management, corporate finance, asset management and wider capital markets propositions.

AIB UK

AIB UK offers corporate, retail and business banking services in two distinct markets;

- a sector-led corporate bank supporting mid to large corporates focused on renewables, infrastructure, housing, commercial real estate, health and manufacturing/industrial businesses across both Great Britain and Northern Ireland, where the Bank has recognised expertise. Services include lending, treasury, trade facilities, asset finance and invoice discounting.
- a full service retail bank in Northern Ireland ("AIB (NI)") to personal and business customers with a focus on mortgage and business lending.

Group

Group comprises wholesale treasury activities and Group control and support functions. Treasury manages the Group's liquidity and funding positions and provides customer treasury services and economic research. The Group control and support functions in the period included Technology, Operations, Finance, Risk, Legal, Corporate Governance & Customer Care, Human Resources, Sustainability and Corporate Affairs, Enterprise Development and Group Internal Audit.

Segment allocations

In 2022 the Group made changes to the methodologies used to allocate cost and income across operating segments in order to enhance the management of standalone segment performance. Under the Group's revised cost allocation methodology, substantially all of the costs of the Group's control, support and Treasury functions are now allocated to Retail Banking, Capital Markets and AIB UK whereas the previous methodology resulted in overheads which were managed centrally being reported in the Group segment. In addition, certain Bank levies and regulatory fees, such as the Irish bank levy, which were previously reported in Group segment are now allocated to the Retail Banking and Capital Market segments. Figures for the prior year have been restated on a comparative basis.

Funding and liquidity income/charges are based on each segment's funding requirements and the Group's funding cost profile, which is informed by wholesale and retail funding costs. Income attributable to capital is allocated to segments based on each segment's capital requirement.

Retail Banking

Retail Banking contribution statement	**2022 € m**	2021 € m	% change
Net interest income	**1,186**	1,042	*14*
Other income	**418**	367	*14*
Total operating income	**1,604**	1,409	*14*
Total operating expenses	**(1,151)**	(1,082)	*6*
Bank levies and regulatory fees	**(50)**	(49)	*2*
Operating contribution before impairments and exceptional items	**403**	278	*45*
Net credit impairment writeback	**144**	86	*67*
Operating contribution before exceptional items	**547**	364	*50*
Income from equity accounted investments	**7**	16	*-56*
Contribution before exceptional items	**554**	380	*46*

Net interest income

€1,186m Net interest income has increased by € 144 million compared to 2021 driven by the favourable impact of a rising interest rate environment partly offset by higher funding costs.

Other income

€418m Other income increased by € 51 million compared to 2021 mainly due to an increase in net fee and commission income reflecting higher transaction volumes driven by a recovery in economic activity and the onboarding of customers from the banks exiting the Irish market as well as higher card interchange fees.

Total operating expenses

€1,151m Total operating expenses increased by € 69 million in 2022 reflecting salary inflation, the costs to on-board customers from banks exiting the Irish market and higher customer fraud related costs.

Net credit impairment writeback

€144m There was a net credit impairment writeback of € 144 million on loans and advances to customers (net remeasurement of ECL allowance writeback of € 101 million and recoveries of amounts previously written-off of € 38 million) and a € 5 million writeback for off-balance sheet exposures. There was a net credit impairment writeback of € 86 million in 2021.

Retail Banking balance sheet metrics	**31 Dec 2022 € bn**	31 Dec 2021 € bn	% *change*
Mortgages	**4.5**	2.9	
Personal	**1.0**	0.9	
Property	**0.1**	0.1	
Non-property business	**0.9**	0.9	
New lending	**6.5**	4.8	*34*
Mortgages	**28.7**	27.7	
Personal	**2.6**	2.6	
Property	**0.5**	0.6	
Non-property business	**3.0**	3.2	
Gross loans	**34.8**	34.1	*2*
ECL allowance	**(0.7)**	(1.0)	*-30*
Net loans	**34.1**	33.1	*3*
Current accounts	**45.4**	37.9	*20*
Deposits	**30.4**	27.3	*11*
Customer accounts	**75.8**	65.2	*16*

New lending

€6.5bn New lending was 34% higher at € 6.5 billion due to a strong increase in mortgage lending of € 1.6 billion or 53% and higher personal lending.

Net loans

€34.1bn Net loans increased by € 1.0 billion primarily due to growth in performing loans as new lending exceeded redemptions partly offset by the disposal of non performing loans.

ECL allowance

€0.7bn The ECL allowance of € 0.7 billion in 2022 decreased by € 0.3 billion from € 1.0 billion at 31 December 2021 primarily reflecting disposal of non-performing loan portfolios.

Customer accounts

€75.8bn Customer accounts increased by € 10.6 billion compared to 31 December 2021 driven by higher personal balances and includes inflows from banks exiting the Irish market.

Capital Markets

Capital Markets contribution statement	**2022 € m**	2021 € m	% *change*
Net interest income	**565**	479	*18*
Other income	**233**	137	*70*
Total operating income	**798**	616	*30*
Total operating expenses	**(325)**	(256)	*27*
Bank levies and regulatory fees	**(12)**	(11)	*9*
Operating contribution before impairments and exceptional items	**461**	349	*32*
Net credit impairment (charge)/writeback	**(102)**	137	—
Operating contribution before exceptional items	**359**	486	*-26*
Income from equity accounted investments	**25**	1	—
Contribution before exceptional items	**384**	487	*-21*

Net interest income

€565m Net interest income increased by € 86 million compared to 2021 primarily due to an increase in average loan and investment securities volumes as well as the favourable impact of a rising interest rate environment partly offset by higher funding costs.

Other income

€233m Other income increased by € 96 million compared to 2021. This reflects the full year impact of Goodbody following acquisition in the second half of 2021 and an underlying increase of € 58m million driven by a gain in respect of a loan acquisition forward contract to acquire corporate and commercial loans from Ulster Bank. There was also an increase in net fee and commission income which was offset by lower income from equity investments.

Total operating expenses

€325m Total operating expenses increased by € 69 million compared to 2021 primarily due to the full year impact of Goodbody and higher personnel expenses.

Net credit impairment charge

€102m There was a net credit impairment charge of € 102 million in 2022 comprising of a net remeasurement of ECL allowance charge of € 97 million and an € 8 million charge for off-balance sheet exposures offset by recoveries of amounts previously written off of € 3 million. There was a net credit impairment writeback of € 137 million in 2021.

Income from equity accounted investments

€25m Income from equity accounted investments increased by €24m reflecting the profit on disposal of an investment in an associate entity.

Capital Markets balance sheet metrics	**31 Dec 2022 € bn**	31 Dec 2021 € bn	% change
Mortgages	**0.1**	—	
Personal	**—**	—	
Property	**2.0**	1.3	
Non-property business	**2.6**	2.8	
New lending	**4.7**	4.1	*15*
Mortgages	**0.5**	0.5	
Personal	**0.1**	—	
Property	**6.4**	5.1	
Non-property business	**12.2**	10.4	
Gross loans	**19.2**	16.0	*20*
ECL allowance	**(0.7)**	(0.6)	*17*
Net loans	**18.5**	15.4	*20*
Investment securities	**2.2**	1.5	*47*
Current accounts	**12.4**	11.1	*12*
Deposits	**3.8**	3.4	*12*
Customer accounts	**16.2**	14.5	*12*

New lending

€4.7bn New lending of € 4.7 billion increased by € 0.6 billion compared to 2021 with strong new lending in property, and to a lesser extent in renewable energy & infrastructure and corporate lending, partially offset by lower syndicated lending.

Net loans

€18.5bn Net loans of € 18.5 billion at 31 December 2022 increased by € 3.1 billion compared to 2021 driven by the acquisition of € 2.1 billion of Ulster Bank corporate and commercial loans and new lending exceeding redemptions.

ECL allowance

€0.7bn The ECL allowance of € 0.7 billion as at December 2022 increased by € 0.1 billion from 31 December 2021 driven by the net credit impairment charge recognised in 2022.

Investment securities

€2.2bn Investment securities of € 2.2 billion were € 0.7 billion higher than 31 December 2021.

Customer accounts

€16.2bn Customer accounts increased by € 1.7 billion compared to 31 December 2021 and includes inflows from banks exiting the Irish market.

AIB UK

AIB UK contribution statement	**2022 £ m**	2021 £ m	% change
Net interest income	**250**	195	*28*
Other income	**48**	46	*5*
Total operating income	**298**	241	*24*
Total operating expenses	**(147)**	(160)	*-8*
Bank levies and regulatory fees	**(1)**	(1)	*-1*
Operating contribution before impairments and exceptional items	**150**	80	*87*
Net credit impairment (charge)/writeback	**(42)**	13	—
Operating contribution before exceptional items	**108**	93	*16*
Income from equity accounted investments	**4**	3	*24*
Contribution before exceptional items	**112**	96	*16*
Contribution before exceptional items € m	**133**	112	*19*

AIB UK balance sheet metrics	**31 Dec 2022 £ bn**	31 Dec 2021 £ bn	% change
AIB GB	**1.1**	0.9	*26*
AIB NI	**0.2**	0.4	*-55*
New lending	**1.3**	1.3	*1*
Gross loans	**6.4**	6.9	*-7*
ECL allowance	**(0.2)**	(0.2)	*4*
Net loans	**6.2**	6.7	*-8*
Current accounts	**5.2**	6.9	*-25*
Deposits	**2.9**	3.0	*-4*
Customer accounts	**8.1**	9.9	*-19*

Net interest income

£250m Net interest income increased by £ 55 million compared to 2021 driven by rising UK interest rates partly offset by lower average loan volumes primarily due to the exit from the SME market in Great Britain.

Other income

£48m Other income of £ 48 million in 2022 was broadly in line with 2021.

Total operating expenses

£147m Total operating expenses decreased by £ 13 million compared to 2021 driven by a reduction in personnel expenses.

Net credit impairment charge

£42m There was a net credit impairment charge of £ 42 million in 2022 which reflected the deteriorating macroeconomic outlook in the UK. There was a net credit impairment writeback of £ 13 million in 2021.

New lending

£1.3bn New lending of £ 1.3 billion in 2022 was in line with 2021 as an increase in corporate lending was offset by a reduction in mortgage and SME lending in Great Britain.

Net loans

£6.2bn Net loans of £ 6.2 billion decreased £ 0.5 billion compared to 31 December 2021 primarily driven by the disposal of loans of £0.3 billion following the Group’s decision to exit the SME market in Great Britain.

ECL allowance

£0.2bn The ECL allowance of £ 0.2 billion at 31 December 2022 was in line with 31 December 2021.

Customer accounts

£8.1bn Customer accounts of £ 8.1 billion at 31 December 2022 were £ 1.8 billion lower primarily due to the Group's decision to exit the SME market in Great Britain and an increase in spending activity due to higher costs of living.

Group

Group contribution statement	2022 € m	2021 € m	% change
Net interest income	**114**	46	—
Other income	**29**	33	*-12*
Total operating income	**143**	79	*81*
Total operating expenses	**(11)**	(10)	*10*
Bank levies and regulatory fees	**(92)**	(101)	*-9*
Contribution before exceptional items	**40**	(32)	—

Group balance sheet metrics	31 Dec 2022 € bn	31 Dec 2021 € bn	% change
Investment securities	**14.1**	15.5	*-9*
Securities financing	**6.3**	3.9	*62*
Customer accounts	**1.2**	1.3	*-8*

Net interest income

€114m Net interest income of € 114 million increased by € 68 million compared to 2021 reflecting the impact of a rising interest rate environment.

Other income

€29m Other income decreased by € 4 million compared to 2021 mainly due to unfavourable movements on non-customer foreign exchange contracts which were largely offset by higher income from equity investments.

Total operating expenses

€11m Total operating expenses of € 11 million are in line with 2021.

Bank levies and regulatory fees

€92m Bank levies and regulatory fees decreased by € 9 million compared to 2021 primarily due to lower Single Resolution Fund fees partially offset by higher Deposit Guarantee Scheme fees.

Investment securities

€14.1bn Investment securities of € 14.1 billion, primarily held for liquidity purposes, decreased by € 1.4 billion from 31 December 2021 primarily due to the impact of negative fair value movements during the year.

Securities financing

€6.3bn Securities financing of € 6.3 billion has increased by €2.4 billion from 31 December 2021.

Customer accounts

€1.2bn Customer accounts were € 1.2 billion at 31 December 2022 compared to € 1.3 billion at 31 December 2021.

Alternative performance measures

The following is a list, together with a description, of APMs used in analysing the Group's performance, provided in accordance with the European Securities and Markets Authority ("ESMA") guidelines.

Average rate	Interest income/expense for balance sheet categories divided by the corresponding average balance.
Average balance	Average balances for interest-earning assets are based on daily balances for all categories with the exception of loans and advances to banks, which are based on a combination of daily/monthly balances. Average balances for interest-earning liabilities are based on a combination of daily/monthly balances, with the exception of customer accounts which are based on daily balances.
Absolute cost base	Total operating expenses excluding exceptional items, bank levies and regulatory fees.
Cost income ratio	Total operating expenses excluding exceptional items, bank levies and regulatory fees divided by total operating income excluding exceptional items.
Cost income ratio (IFRS basis)	Total operating expenses divided by total operating income.
Exceptional items	Performance measures have been adjusted to exclude items viewed as exceptional by management and which management view as distorting comparability of performance year on year. The adjusted performance measure is considered an APM. A reconciliation between the IFRS and management performance summary income statements is set out on page 70. Exceptional items include: • *Restitution costs* includes a charge related to a series of investment property funds (known as Belfry) which were sold to individual investors during the period 2002 to 2006. It also includes customer redress compensation and associated costs. • *Restructuring costs* reflect the implementation of the Group's strategy (Strategy 2023) including termination benefits, impairment and other costs associated with the reduction in the Group's property footprint, changes to the Retail network in ROI and the exit from the SME market in Great Britain. • *Inorganic transaction costs* includes costs associated with the acquisition of a portfolio of performing Ulster Bank corporate and commercial loans and the acquisition of a portfolio of performing Ulster Bank tracker (and linked) mortgages. In 2021 it also included costs associated with the creation of a joint venture with Great-West Lifeco Inc. • *Gain/(loss) on disposal of loan portfolios* relates to the disposals of non-performing loan portfolios. • *Other* in 2022 reflects a charge in respect of the Central Bank of Ireland enforcement investigation in respect of tracker mortgages at AIB and EBS. In 2021 it included a writeback of a provision for regulatory fines.
Loan to deposit ratio	Net loans and advances to customers divided by customer accounts.
Net interest margin	Net interest income divided by average interest-earning assets.
Non-performing exposures	Non-performing exposures as defined by the European Banking Authority, include loans and advances to customers (non-performing loans) and off-balance sheet exposures such as loan commitments and financial guarantee contracts.
Non-performing loans cover	ECL allowance on non-performing loans as a percentage of non-performing loans.
Non-performing loans ratio	Non-performing loans as a percentage of total gross loans.
Return on Tangible Equity (RoTE)	Profit after tax less AT1 coupons paid, divided by targeted CET1 capital on a fully loaded basis. Details of the Group's RoTE is set out in the Capital Section on page 74.
Management performance – summary income statement	The following line items in the management performance summary income statement are considered APMs: • Other income • Total operating income • Personnel expenses • General and administrative expenses • Depreciation, impairment and amortisation • Total operating expenses • Bank levies and regulatory fees • Operating profit before impairment losses and exceptional items • Operating profit before exceptional items • Profit before exceptional items • Total exceptional items

Reconciliation between IFRS and management performance summary income statements

Performance has been adjusted to exclude items viewed as exceptional by management and which management view as distorting comparability of performance period on period. The adjusted performance measure is considered an APM. A reconciliation of management performance measures to the directly related IFRS measures, providing their impact in respect of specific line items and the overall summary income statement, is set out below.

IFRS - summary income statement	**2022** **€ m**	2021 € m
Net interest income	**2,159**	1,794
Other income	**754**	582
Total operating income	**2,913**	2,379
Total operating expenses	**(2,063)**	(2,006)
Operating profit before impairment losses	**850**	373
Net credit impairment (charge)/writeback	**(7)**	238
Operating profit	**843**	611
Income from equity accounted investments	**37**	21
Profit before taxation	**880**	629
Income tax (charge)/credit	**(115)**	16
Profit for the year	**765**	645

Adjustments - between IFRS and management performance

Other income	**of which: exceptional items**				
	(Gain)/loss on disposal of loan portfolios	**(18)**		6	
	Other	**—**	**(18)**	2	8
Total operating expenses	**of which: bank levies and regulatory fees**		**155**		162
	of which: exceptional items				
	Restitution costs	**94**		173	
	Restructuring costs	**75**		122	
	Inorganic transaction costs	**53**		21	
	Other	**27**		(6)	
			249		310

Management performance - summary income statement		
Net interest income	**2,159**	1,794
Other income(1)	**736**	590
Total operating income(1)	**2,895**	2,384
Total operating expenses(1)	**(1,659)**	(1,534)
Bank levies and regulatory fees(1)	**(155)**	(162)
Operating profit before impairment losses and exceptional items(1)	**1,081**	688
Net credit impairment (charge)/writeback	**(7)**	238
Operating profit before exceptional items(1)	**1,074**	926
Income from equity accounted investments	**37**	21
Profit before exceptional items(1)	**1,111**	947
Total exceptional items(1)	**(231)**	(318)
Profit before taxation	**880**	629
Income tax (charge)/credit	**(115)**	16
Profit for the year	**765**	645

(1) Performance has been adjusted to exclude items viewed as exceptional by management and which management view as distorting comparability of performance period on period. The adjusted performance measure is considered an APM.

BUSINESS REVIEW – 2. CAPITAL

Objectives*

The objectives of the Group's capital management policy are to at all times comply with regulatory capital requirements and to ensure that the Group has sufficient capital to cover the current and future risk inherent in its business and to support its future development. Detail on the management of capital and capital adequacy risk can be found in 'Risk management 2.9' on page 206.

Regulatory capital and capital ratios(1)

	Transitional basis		Fully loaded basis	
	31 December 2022 € m	31 December 2021 € m	**31 December 2022 € m**	31 December 2021 € m
Equity	**12,266**	13,664	**12,266**	13,664
Less: Additional tier 1 Securities	**(1,115)**	(1,115)	**(1,115)**	(1,115)
Proposed ordinary dividend	**(166)**	(122)	**(166)**	(122)
Regulatory adjustments:				
Intangible assets and goodwill	**(537)**	(552)	**(537)**	(552)
Cash flow hedging reserves	**1,470**	(149)	**1,470**	(149)
IFRS 9 CET1 transitional add-back	**411**	565	**—**	—
Pension	**(12)**	(39)	**(12)**	(39)
Deferred tax	**(2,192)**	(1,977)	**(2,724)**	(2,801)
Calendar provisioning(3)	**(115)**	(136)	**(115)**	(136)
Other(2)	**(65)**	(37)	**(65)**	(37)
	(1,040)	(2,325)	**(1,983)**	(3,714)
Total common equity tier 1 capital	**9,945**	10,102	**9,002**	8,713
Additional tier 1 capital				
Additional tier 1 issuance	**1,115**	1,115	**1,115**	1,115
Other	**(3)**	—	**(3)**	—
Total additional tier 1 capital	**1,112**	1,115	**1,112**	1,115
Total tier 1 capital	**11,057**	11,217	**10,114**	9,828
Tier 2 capital				
Subordinated debt	**1,500**	1,500	**1,500**	1,500
Instruments issued by subsidiaries that are given recognition in tier 2 capital	**27**	24	**29**	28
IRB Excess of provisions over expected losses eligible	**135**	133	**135**	133
IFRS 9 tier 2 transitional adjustment	**(135)**	(133)	**—**	—
Other	**(3)**	—	**(3)**	—
Total tier 2 capital	**1,524**	1,524	**1,661**	1,661
Total capital	**12,581**	12,741	**11,775**	11,489
Risk-weighted assets				
Credit risk	**50,886**	47,646	**50,661**	47,367
Market risk	**291**	446	**291**	446
Operational risk	**4,302**	4,435	**4,302**	4,435
Credit valuation adjustment and settlement risk	**79**	110	**79**	110
Total risk-weighted assets	**55,558**	52,637	**55,333**	52,358
	%	%	**%**	%
Common equity tier 1 ratio	**17.9**	19.2	**16.3**	16.6
Tier 1 ratio	**19.9**	21.3	**18.3**	18.8
Total capital ratio	**22.6**	24.2	**21.3**	21.9

(1) Prepared under the regulatory scope of consolidation.
(2) Other includes prudent valuation adjustment which has increased with the addition of the Ulster Bank forward contract.
(3) Calendar provisioning is a Supervisory Review and Evaluation Process ("SREP") recommendation to ensure minimum coverage levels on long term NPE exposures. The difference between the SREP recommended coverage levels and the IFRS 9 ECL coverage is taken as a CET1 deduction.

*Forms an integral part of the audited financial statements

Key Points

- The Group is reporting a fully loaded CET1 ratio of 16.3% at 31 December 2022.
- Including the impact of the proposed share buyback, the fully loaded CET1 ratio is 15.9%, against a requirement of 10.23%.
- The impact of the acquisition of the Ulster Bank tracker mortgage portfolio is expected to be c. -0.6%.

Capital requirements

The table below sets out the capital requirements at 31 December 2022 and the pro forma requirements for 31 December 2023 and 31 December 2024.

	Actual	Pro Forma	
Regulatory Capital Requirements	**31 Dec 2022**	**31 Dec 2023**	**31 Dec 2024**
CET1 Requirements			
Pillar 1	4.50 %	4.50 %	4.50 %
Pillar 2 requirement (P2R)	1.55 %	1.55 %	1.55 %
Capital Conservation Buffer (CCB)	2.50 %	2.50 %	2.50 %
Other Systemically Important Institutions Buffer (O-SII)	1.50 %	1.50 %	1.50 %
Countercyclical buffer (CCYB) Impact	0.18 %	1.05 %	1.45 %
CET1 Requirement	**10.23 %**	**11.10 %**	**11.50 %**
AT1	**2.02 %**	**2.02 %**	**2.02 %**
Tier 2	**2.69 %**	**2.69 %**	**2.69 %**
Total Capital Requirement	**14.94 %**	**15.80 %**	**16.20 %**

In addition, under Article 104a any shortfall in AT1 and Tier 2 must be held in CET1[1]. The table does not include Pillar 2 Guidance ("P2G") which is not publicly disclosed.

The Bank of England ("BOE") has reintroduced the UK Countercyclical capital buffer ("CCyB") at 1% in December 2022, increasing to 2% in July 2023. The Central Bank of Ireland ("CBI") is also reintroducing the CCyB for Irish exposures at 0.5% in June 2023, increasing to 1.0% in November 2023 and potentially to 1.5% in 2024.

Capital ratios at 31 December 2022

Fully Loaded Ratio

The fully loaded CET1 ratio decreased to 16.3% at 31 December 2022 from 16.6% at 31 December 2021.

Profit for the year attributable to equity holders of the parent less proposed ordinary dividend (+1.2%) is offset by increased Risk Weighted Assets ("RWAs") (-0.9%), a reduction in the investment securities reserve (-0.4%) and a share buyback programme completed in May 2022 (-0.2%).

The increase in RWA is mainly as a result of the acquisition of the Ulster Bank corporate and commercial loan book.

The fully loaded total capital ratio decreased to 21.3% from 21.9% at 31 December 2021. The decrease in the ratio was primarily driven by the CET1 ratio movements outlined above.

Transitional Ratio

The transitional CET1 ratio decreased to 17.9% at 31 December 2022 from 19.2% at 31 December 2021. This decrease is driven by the fully loaded CET1 ratio movements detailed above and an additional year's phasing of the deferred tax asset deduction and the IFRS 9 transitional addback.

At 31 December 2022 the transitional total capital ratio decreased to 22.6% from 24.2% at 31 December 2021.

Acquisition of Ulster Bank tracker mortgage portfolio

The Group estimates that had the Ulster Bank tracker transaction completed on 31 December 2022 the increase in the Group's RWAs would have led to a reduction in the CET1 ratio of c.-0.6%.

As CCPC approval had not yet been received at 31 December 2022, the impact is not reflected in the capital position. CCPC approval was received in January 2023 and therefore the impact will be recognised by way of an Article 3 adjustment in the first quarter of the year.

Model Redevelopment

The regulatory review of the Group's previously submitted mortgage model is near completion. The current estimated capital impact is a reduction of c. 30 basis points on the CET1 ratio. The impact will be included in the Group's capital position following receipt of regulatory approval expected to be in the first six months of 2023.

Further headwinds may be faced as SME and corporate models are redeveloped and submitted for regulatory approval.

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(1) The AT1 shortfall at 31 December 2022 is 1bp and accordingly increases the CET1 requirement to 10.24%.

Distributions

Proposed Dividend

The Board proposes to pay an ordinary dividend of 6.2 cent per share from 2022 profits (totalling € 166 million based on the total number of ordinary shares currently outstanding). This is subject to shareholder approval at the Annual General Meeting in May 2023.

Proposed buyback of ordinary shares

The Group has received regulatory approval from the European Central Bank to undertake a buyback of its ordinary shares in an aggregate consideration amount of up to € 215 million. Discussions with the Department of Finance in relation to a potential directed buyback of ordinary shares by the Minister for Finance are currently underway. Any buyback of ordinary shares would be subject to the approvals of the Board and the Minister for Finance.

The combined proposed ordinary dividend and buyback represents c. 50% of 2022 distributable profits. In determining distributable profits, the Group considers profit after tax adjusted for the deferred tax asset utilisation, less AT1 coupons paid.

The pro forma capital impact of the proposed share buyback at 31 December 2022 is c.40 basis points which would reduce the fully loaded CET1 ratio to 15.9% from the reported 16.3%.

Leverage ratio

The fully loaded leverage ratio is 7.6% at 31 December 2022 (7.6% at 31 December 2021).

Leverage Ratio Metrics	**2022 €m**	2021 €m
Total Exposure (Transitional)	**133,971**	130,894
Total Exposure (Fully Loaded)	**132,968**	129,373
Tier 1 Capital (Transitional Basis)	**11,057**	11,217
Tier 1 Capital (Fully Loaded)	**10,115**	9,828
Leverage Ratio (Transitional basis)	**8.3 %**	8.6 %
Leverage Ratio (Fully Loaded)	**7.6 %**	7.6 %

Finalisation of Basel III

As the Basel III implementation nears completion, the Group continues to closely monitor regulatory developments to ensure that the Group maintains a strong capital position.

Initial assessments signal some upward pressure on RWAs, mostly in relation to operational risk. In relation to RWA floors, the Group's high RWA density makes it less likely to be severely impacted by their introduction.

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

At 31 December 2022 the Group has a MREL ratio of 33.7% of RWAs (31.9% at 31 December 2021).

The Single Resolution Board ("SRB") set the Group's binding intermediate MREL target under the BRRD II legislative framework to be complied with by 1 January 2023 at 28.5% of RWAs including the combined buffer requirement. The Group anticipates that the final target (1 January 2024) will be higher as the final elements of the MREL calibration are phased in. The MREL target including the combined buffer target will also be impacted by any changes in the overall capital requirement.

The Group's MREL ratio is in excess of the target for 2023 and there is currently sufficient loss absorption and re-capitalisation capability.

The Group continues to monitor changes in MREL requirements together with developments in the SRB's MREL policy which has the potential to impact on the Group's MREL target.

Ratings

AIB Group plc and Allied Irish Banks, p.l.c. are rated at investment grade with Moody's and Standard & Poor's (S&P).

AIB Group plc

On 13 May 2022, Moody's upgraded the credit rating by one notch to A3 following an upgrade of Ireland's sovereign debt rating and an improvement in the operating environment. The Stable outlook was reaffirmed.

On 16 May 2022, S&P revised the outlook to Stable from Negative and reaffirmed the ratings. This reflects S&P's view that profitability pressure for AIB is easing.

On 22 December 2022, S&P further revised the outlook to Positive from Stable and reaffirmed the ratings. This reflects S&P's view that asset quality and profitability are improving for AIB.

As part of a wider review of AIB's rating agency requirements, AIB are no longer soliciting a rating from Fitch. Prior to withdrawal, on 20 January 2023 Fitch affirmed the BBB / Stable rating.

	31 December 2022	
Long term Ratings	**Moody's**	**S&P**
Long term	**A3**	**BBB-**
Outlook	**Stable**	**Positive**
Investment grade	√	√

		31 December 2021	
Long term Ratings	Moody's	S&P	Fitch
Long term	Baa1	BBB-	BBB
Outlook	Stable	Negative	Stable
Investment grade	√	√	√

Allied Irish Banks, p.l.c.

As part of a wider review of AIB's rating agency requirements, AIB are no longer soliciting a rating from Fitch. Prior to withdrawal, on 20 January 2023 Fitch affirmed the BBB+ / Stable rating.

	31 December 2022	
Long-term Ratings	**Moody's**	**S&P**
Long term	**A1**	**A-**
Outlook	**Stable**	**Positive**
Investment grade	√	√

		31 December 2021	
Long term Ratings	Moody's	S&P	Fitch
Long term	A2	A-	BBB+
Outlook	Stable	Negative	Stable
Investment grade	√	√	√

Return on Tangible Equity ("RoTE")*

The RoTE for 2022 is 9.6% (2021: 8.2%).

	2022	2021
Return on Tangible Equity (RoTE)	**€m**	€m
Profit after tax	**765**	645
AT1 coupons paid	**(65)**	(65)
Attributable earnings	**700**	579
Average RWA	**53,846**	52,469
RWA * 13.5% CET1 target	**7,269**	7,083
Return on Tangible Equity	**9.6 %**	8.2 %

The Group's RoTE target of greater than 9% was revised in December 2022 to a target of greater than 13% in 2024.

Return on Assets

The Return on Assets (RoA) at 31 December 2022 is 0.5% (2021: 0.5%).

* RoTE is considered an Alternative Performance Measurement.

GOVERNANCE AND OVERSIGHT REPORT

This Governance and Oversight Report sets out the manner in which strong corporate governance standards have been achieved across the Group.

This section specifically provides an overview of the key responsibilities of the Board and its Committees, and gives further insight into the work of the Directors and Board as a collective. It also sets out how they have discharged those duties and responsibilities over 2022.

The corporate governance framework in operation in the Group is anchored in the requirements of the UK Corporate Governance Code 2018 ("the UK Code").

Governance and Oversight Report

Governance in AIB 76

Our Board

Our Board of Directors 78

Our Executive Committee 82

Chair's Introduction & Compliance Statements

Chair's Introduction 84

Compliance Statement 84

Board Focus, Leadership, Composition, Succession and Evaluation

Key Focus Areas 85

Board Leadership 86

Relationship with the Irish State 86

Division of Responsibilities 87

Composition, Succession and Evaluation 89

Board Effectiveness 91

Shareholder Engagement

Section 172 Statement 93

Committee Reports, Audit, Risk & Internal Control

Audit Committee 95

Risk Committee 101

Remuneration Committee 106

Remuneration Statement 109

Nomination and Corporate Governance Committee 104

Technology and Data Advisory Committee 115

Sustainable Business Advisory Committee 116

Viability Statement 120

Directors' Report

Directors' Report 122

Schedule to Directors' Report 125

Other Governance Information 127

Supervision and Regulation 128

Our application of the UK Code principles during 2022.

The table below highlights where key content can be found in this report to demonstrate how the Group have applied the UK Code principles during 2022.

UK CODE SECTION 1 Principles A to E (Provisions 1 - 8)	UK CODE SECTION 2 Principles F to I (Provisions 9 - 16)	UK CODE SECTION 3 Principles J to L (Provisions 17 - 23)	UK CODE SECTION 4 Principles M to O (Provisions 24 - 31)	UK CODE SECTION 5 Principles P to R (Provisions 32 - 41)
Board Leadership and Company Purpose	**Division of Responsibilities**	**Composition, Succession & Evaluation**	**Audit, Risk & Internal Control**	**Remuneration**
See p86 to 88	See p87 to 88	See p89 to 92	See p92 to 126	See p109 to 114

GOVERNANCE IN ACTION

A sustained focus on strong Corporate Governance practices through a period of significant change in Ireland's banking landscape.

The Board is cognisant of the importance of its role in driving sustainable value for shareholders in the long-term, with due consideration for all stakeholder groups, and is committed to upholding high corporate governance standards in all its deliberations. Set out below are a number of key areas of focus and development for the Board from a governance perspective over the course of 2022.

Governance oversight of strategic delivery
Growing the Group through acquisition and investment played an important part of the Group's strategy during the year, helping to achieve delivery of long-term sustainable returns. The Board plays a critical role in ensuring that a robust and rigorous process is followed in respect of such transactions ensuring that all proposals are carefully considered and challenged before being taken forward. As part of this process, consideration is given to our customers, the projected financial performance, potential synergies, the regulatory, political and competitor landscapes, and the impact on existing operations, as well as any potential risks arising. The capacity of the Group to execute these inorganic growth opportunities in a controlled way while still delivering for our existing customers on a day-to-day basis was central to Board considerations throughout the year. This Board oversight was achieved through regular updates from Management on the implementation of the Group Strategy and Transformation Plan addressing areas such as resourcing, organisational capacity and execution delivery from a Group wide perspective as well as ensuring a strong risk and control framework across the three lines of defence was in place. This allowed the Board to dynamically manage and prioritise key deliverables and resources in the most appropriate way to ensure successful delivery.

Group Governance Frameworks
In the context of the strategic growth agenda, the Board remains focused on Group wide governance. During 2022, the Group enhanced and expanded its Subsidiary Governance Framework, which encompasses the Group's relationship with all Subsidiaries, Associates, Joint Ventures and Special Purpose Entities within the Group. The enhanced Subsidiary Governance Framework outlines the Group's governance principles and introduces additional requirements for entities depending on their size, complexity, structure, economic significance, risk profile and business model.

The enhanced Framework further outlines the Group's expectations of these entities, provides escalation routes in the event of issues of concern, ensures open lines of communication exist, and replicates the foundations and organisational arrangements for risk management practices that are already evident within the Group.

The Nomination and Corporate Governance Committee continues to play a central role in the review and selection of directors for the entities thereby ensuring that the calibre and diversity of our entity boards is appropriate to the needs of the Group in fulfilling its strategy for growth and expansion.

Throughout the year, the material entities maintained links with the AIB Group Board. Additionally, interaction and engagement was encouraged with meetings being organised between the Chair of the Board Audit Committee and those of the material entity audit committees. This has facilitated enhanced governance and oversight and ensured alignment with the Group's strategy and values.

Risk Culture and Speak Up

The Board continues to place significant importance on ensuring that a values led culture is in place in the Group. In 2022, a number of initiatives were further embedded with Board involvement, including "Risk in Conversation" week, which has the goal of building risk awareness and culture across the Group. A number of Non-Executive Directors actively participated in interactive "Board Member Conversations" on specific topics which were open to all employees.

Following the launch of the "Speak Your Mind" campaign in 2021, the journey to strengthen the culture of Speak Up within the Group continued. This was supported by a strong tone from the top, which was continued in 2022.

The Board Audit Committee Chair, Sandy Kinney Pritchard, is the Whistleblowing Champion for the Group, and continues to drive this agenda, making a significant contribution to enhancing the Group's culture in this area through her regular engagement and support to the Executive teams responsible. "Speak Your Mind" week took place in November 2022, and Ms. Kinney Pritchard participated in an interactive live panel discussion on the topic of "Encouraging a Speak Up Culture in AIB" and the importance of "Listening Up" and being accountable for concerns raised, sharing her own personal experiences and endorsing the message that she and the Board are fully committed to a Speak Up culture in the Group.

Over the course of "Speak your Mind" week, the Group Chair, Jim Pettigrew, also spoke to staff about his passion for having a Speak Up culture in AIB and how having that culture will be critical to the success of AIB, reminding all staff of their individual responsibility for creating this culture, and further reiterated the commitment of the Board on the area of Speak Up.

AIB GROUP BOARD GOVERNANCE STRUCTURE

AIB GROUP BOARD

BOARD AUDIT COMMITTEE	Independently oversees the quality and integrity of the Group's accounting policies, financial and narrative reporting, non-financial disclosures and disclosure practices, internal control framework and audit, as well as the mechanisms through which employees may raise concerns.	**BOARD COMMITTEE**
BOARD RISK COMMITTEE	Fosters sound risk governance across the Group's operations, overseeing the risk management framework and compliance function to include the risk appetite profile and the overall risk awareness across the Group.	**BOARD COMMITTEE**
REMUNERATION COMMITTEE	Oversees the design and implementation of the Group's Remuneration policy and the operation of remuneration policies and practices with particular reference to certain senior management.	**BOARD COMMITTEE**
NOMINATION AND CORPORATE GOVERNANCE COMMITTEE	Oversees Board and Executive Committee succession planning and keeps the Board's governance arrangements and corporate governance compliance under review.	**BOARD COMMITTEE**
SUSTAINABLE BUSINESS ADVISORY COMMITTEE	Supports the Group's sustainable business strategy which includes the development and safeguarding of the Group's social license to operate.	**ADVISORY COMMITTEE**
TECHNOLOGY AND DATA ADVISORY COMMITTEE	Reviews and challenges the strategy, governance and execution of matters relating to technology, data and cyber.	**ADVISORY COMMITTEE**

BOARD OF DIRECTORS

JIM PETTIGREW

Chair
Non-Executive Director

DATE OF APPOINTMENT

28 October 2021

NATIONALITY

British

COMMITTEE MEMBERSHIP AND TENURE

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1y 1y

SKILLS, EXPERTISE AND EXPERIENCE

Key Skills:
Extensive financial services experience, retail banking, customer and conduct, governance, strategy and culture development.

Background & Experience:
Jim has over 35 years' experience in UK and international financial services leadership in public listed and private company environments, including at board level, as CEO and as Chair. He was Chair of Scottish Financial Services, the Scottish financial services trade body. He also served as Co-Chair of Scotland's Financial Services Advisory Board and is a former President of the Institute of Chartered Accountants of Scotland. He retired as Chair of Virgin Money and CYBG plc in 2020. He has built considerable non-executive experience over the past 12 years across retail, wholesale and investment banking, asset and wealth management and the insurance sectors. Jim is a Chartered Accountant and Fellow of the Association of Corporate Treasurers. He has a LLB from Aberdeen University and a DipACC from Glasgow University.

KEY EXTERNAL APPOINTMENTS

Chair of BlueBay Asset Management
Chair of Scottish Ballet
Chair of Dundee Industrial Heritage Trust

ANIK CHAUMARTIN

Independent
Non-Executive Director

DATE OF APPOINTMENT

1 July 2021

NATIONALITY

French

COMMITTEE MEMBERSHIP AND TENURE

A S
1.5y

SKILLS, EXPERTISE AND EXPERIENCE

Key Skills:
Deep technical accountancy and audit expertise in financial services, talent and culture development, and stakeholder management.

Background & Experience:
Anik has over 37 years' international and professional services experience. She was a partner in PwC in Paris for 27 years, and held various leadership positions in the firm for 15 of those years. During her time in PwC she has acted in the roles of Global Client Relationship Partner and Lead Audit Partner for a number of major banking and financial services organisations.

KEY EXTERNAL APPOINTMENTS

Non-Executive Director of ALD Automotive
Non-Executive Director of La Banque Postale
Non-Executive Director of Saol Assurance dac

BASIL GEOGHEGAN

Independent
Non-Executive Director

DATE OF APPOINTMENT

4 September 2019

NATIONALITY

Irish

COMMITTEE MEMBERSHIP AND TENURE

Ri
3y

SKILLS, EXPERTISE AND EXPERIENCE

Key Skills:
In-depth knowledge of international finance, corporate banking, strategy and risk management.

Background & Experience:
Basil is a partner in the Strategic Advisory Group at PJT Partners in London. Previously, Basil was a Managing Director at Goldman Sachs, Deutsche Bank and Citigroup in London and New York. He has broad M&A, corporate finance and strategic advisory experience in the US, UK, Ireland and internationally. He qualified as a solicitor with Slaughter and May. Basil is Chair of daa plc and is a Patron of The Ireland Fund of Great Britain. He holds an LLB from Trinity College, Dublin and an LLM from the European University Institute.

KEY EXTERNAL APPOINTMENTS

Chair of daa plc
Patron of The Ireland Fund of Great Britain
Partner at PJT Partners

TANYA HORGAN

Independent
Non-Executive Director

DATE OF APPOINTMENT

14 September 2021

NATIONALITY

Irish

COMMITTEE MEMBERSHIP AND TENURE

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SKILLS, EXPERTISE AND EXPERIENCE

Key Skills:
Extensive risk management, compliance, finance, accounting and audit, customer and conduct, and technology skills.

Background & Experience:
Tanya is a Chartered Accountant with extensive industry-based experience in the areas of compliance, internal audit and risk management and has over twenty years' experience in publicly listed companies. Tanya trained and qualified with PwC. She has since held roles in a number of organisations including Tesco, Mercury Engineering, Paddy Power Betfair plc and, most recently, was the Group Chief Risk Officer of Flutter Entertainment plc. Tanya currently serves as the Chief Risk Officer of Primark. She has a B.Comm in Accounting from University College Cork.

KEY EXTERNAL APPOINTMENTS

Chief Risk Officer of Primark

BOARD COMMITTEES

R Remuneration
N Nomination & Corporate Governance
A Board Audit
Ri Board Risk
S Sustainable Business Advisory
T Technology & Data Advisory
🟩 Committee chair

SANDY KINNEY PRITCHARD

Independent
Non-Executive Director

DATE OF APPOINTMENT

22 March 2019

NATIONALITY

Irish

COMMITTEE MEMBERSHIP AND TENURE

A RI

3.5y 3.5y

SKILLS, EXPERTISE AND EXPERIENCE

Key Skills:
Expertise in finance, accounting and audit, governance, regulation, customer and conduct, risk management, wealth management, retail and investment banking.

Background & Experience:
Sandy is a University College Dublin graduate, with a distinguished career across the financial services industry. She is an accountant who previously was a senior partner at PricewaterhouseCoopers LLP and has held a number of Non-Executive Directorship roles, including at Irish Life and Permanent TSB plc, Skipton Building Society, the FSCS, TSB Bank plc and MBNA Ltd.

KEY EXTERNAL APPOINTMENTS

Non-Executive Director and Chair of the Audit Committee and the Remuneration Committee of Credit Suisse (UK) Ltd

ELAINE MACLEAN

Independent
Non-Executive Director

DATE OF APPOINTMENT

4 September 2019

NATIONALITY

British

COMMITTEE MEMBERSHIP AND TENURE

R N

3y 2y

SKILLS, EXPERTISE AND EXPERIENCE

Key Skills:
Significant experience in remuneration and governance, organisational structures, and people and culture development.

Background & Experience:
Elaine is a highly experienced human resources director specialising in financial services and retail. Following her early retail career with roles at Harrods, Windsmoor and later as Retail Operations Director and Human Resources Director with Arcadia, Elaine moved to financial services culminating in her appointment as Group Human Resources Director for Legal and General plc in 2006. Elaine holds an MA in English Literature and Psychology from the University of Glasgow. She is the Designated Non-Executive Director for workforce engagement.

KEY EXTERNAL APPOINTMENTS

None

ANDY MAGUIRE

Independent
Non-Executive Director

DATE OF APPOINTMENT

15 March 2021

NATIONALITY

Irish

COMMITTEE MEMBERSHIP AND TENURE

RI T

2y 2y

SKILLS, EXPERTISE AND EXPERIENCE

Key Skills:
Extensive retail banking, technology and digital, transformation, and risk management skills.

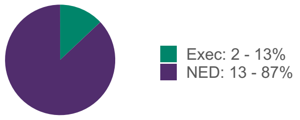
Background & Experience:
Andy has extensive financial services experience spanning 35 years, including 16 years with the Boston Consulting Group where he rose to become Managing Partner of the London office covering the UK and Ireland, prior to which he held several global roles including Global Head of Retail Banking. From 2014 to 2020, Andy was the Group Chief Operating Officer for HSBC Holdings plc with responsibility for operations, technology, real estate, change and transformation and operational resilience. He holds a BA and a BAI from Trinity College, Dublin.

KEY EXTERNAL APPOINTMENTS

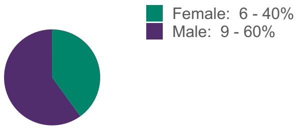
Chair of Napier Technologies Limited
Chair of Thought Machine Group
Chair of CX Holdings (Cennox Group)

AIB DIRECTORS

BOARD



GENDER



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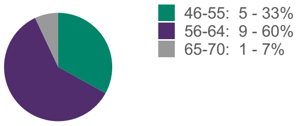
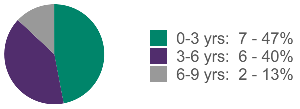
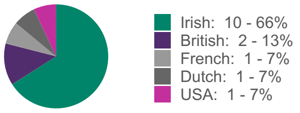


TENURE



NATIONALITIES



BOARD COMMITTEES

R Remuneration	N Nomination & Corporate Governance	A Board Audit	RI Board Risk	S Sustainable Business Advisory	T Technology & Data Advisory	🟩 Committee chair

BOARD OF DIRECTORS CONTINUED

BRENDAN MCDONAGH

Independent Non-Executive Director and Deputy Chair

DATE OF APPOINTMENT

27 October 2016

NATIONALITY

Irish

COMMITTEE MEMBERSHIP AND TENURE

R	N	A	Ri 🟩
4y	3y	4.5y	6y

SKILLS, EXPERTISE AND EXPERIENCE

Key Skills:
Significant global financial services experience in retail and commercial banking, strategy, governance, regulation, and risk management.

Background & Experience:
Brendan started his banking career with HSBC in 1979, working across Asia, Europe, North America, and the Middle East, where he held various roles such as Group Managing Director for HSBC Holdings plc, membership of the HSBC Group Management Board, and CEO of HSBC North America Holdings Inc. Brendan is a former Director of Ireland's National Treasury Management Agency (NTMA). He was previously the Executive Chair of Bank of N.T. Butterfield & Son Limited. Brendan was appointed Deputy Chair with effect from 24 October 2019.

KEY EXTERNAL APPOINTMENTS

Non-Executive Director and Chair of Audit & Risk Committees of Bradford & Bingley Limited and NRAM Limited
Chair of PEAL Capital Group Limited
Serves on the Board of The Ireland Funds, Ireland Chapter
Council Member of Global Advisory Council, Impact Ireland Fund
Chair of Trinity Business School Advisory Board

HELEN NORMOYLE

Senior Independent Non-Executive Director

DATE OF APPOINTMENT

17 December 2015

NATIONALITY

Irish

COMMITTEE MEMBERSHIP AND TENURE

S 🟩	N	T
6.5y	2.5y	2y

SKILLS, EXPERTISE AND EXPERIENCE

Key Skills:
Deep knowledge and experience of sustainability, customer and conduct, digital, stakeholder management, and culture development.

Background & Experience:
Helen is a highly experienced marketeer with 30 years' experience in consumer marketing and market research across a range of sectors and geographies. A graduate of the University of Limerick, she started her career with Infratest+GfK. From there she moved to Motorola, where she held a range of roles including Director of Global Consumer Insights and Product Marketing and Director of Marketing. After working in broadcast and telecoms regulation at Ofcom as the Director of Market Research, she held Marketing Director and Chief Marketing Officer roles at the BBC, DFS, Countrywide and Boots, where she was also the Chair and Director of the Boots Charitable Trust. Helen also serves on the Board of AIB Group (UK) p.l.c. Helen was appointed Senior Independent Director with effect from 1 July 2022.

KEY EXTERNAL APPOINTMENTS

Co-founder and Executive Director of My Menopause Centre
Non-Executive Director of Thame and London Ltd

ANN O'BRIEN

Independent Non-Executive Director

DATE OF APPOINTMENT

25 April 2019

NATIONALITY

Irish

COMMITTEE MEMBERSHIP AND TENURE

A	R	T 🟩
2.5y	3.5y	2y

SKILLS, EXPERTISE AND EXPERIENCE

Key Skills:
Significant technology and digital expertise, and highly-skilled in the areas of sustainability, strategy and leadership.

Background & Experience:
Ann has over 30 years' experience in the financial services industry. A graduate of UCD and later Trinity College Dublin, Ann has led complex management consulting engagements at many of the world's largest global banking and securities organisations. Her most recent role was as a Principal with Deloitte in New York where she was based for 10 years. Ann was appointed by the Board, on the nomination of the Irish Minister for Finance, under the Relationship Framework between the Minister for Finance and AIB Group.

KEY EXTERNAL APPOINTMENTS

Non-Executive Director of Royal London Asset Management Limited
Independent Non-Executive Director of Euroclear UK & International

FERGAL O'DWYER

Independent Non-Executive Director

DATE OF APPOINTMENT

22 January 2021

NATIONALITY

Irish

COMMITTEE MEMBERSHIP AND TENURE

A
2y

SKILLS, EXPERTISE AND EXPERIENCE

Key Skills:
Extensive experience in finance and accounting, treasury and liquidity management, strategy, and capital markets.

Background & Experience:
Fergal is a Chartered Accountant with significant experience in financial management, treasury, strategy, capital deployment and development. Fergal retired in 2020 from DCC plc, the Irish headquartered international sales, marketing and business support services group, which is a FTSE100 constituent company, where he began as an Associate Director, later progressing to Chief Financial Officer in 1992, and Executive Director in 2000. Prior to joining DCC, Fergal worked in PwC and KPMG.

KEY EXTERNAL APPOINTMENTS

Non-Executive Director of ABP Food Group Unlimited
Board member of Focus Ireland and Focus Housing Association
Director of Blackrock Healthcare Group Unlimited

BOARD COMMITTEES

R	Remuneration
N	Nomination & Corporate Governance
A	Board Audit
Ri	Board Risk
S	Sustainable Business Advisory
T	Technology & Data Advisory
🟩	Committee chair

JAN SIJBRAND

Independent Non-Executive Director

DATE OF APPOINTMENT

14 September 2021

NATIONALITY

Dutch

COMMITTEE MEMBERSHIP AND TENURE

Ri S

1y 6m

SKILLS, EXPERTISE AND EXPERIENCE

Key Skills:
Highly skilled in the areas of risk management, retail and commercial banking, governance, financial regulation and oversight.

Background & Experience:
Jan has had an extensive executive career including roles in Royal Dutch Shell plc, Rabobank Nederland, ABN AMRO Holding N.V. and NIBC Bank N.V. and was a member of the Executive Board and Chair for Supervision at De Nederlandsche Bank N.V. (the central bank of the Netherlands). Jan is currently a member of the Supervisory Board and Chair of the Public Interest Committee of PwC Nederland and served on the Global Board of PwC up until June 2022. Jan has an MSc in Applied Mathematics and a PhD in Mathematics, both from the University of Utrecht.

KEY EXTERNAL APPOINTMENTS

Non-Executive Director of PwC Nederland

RAJ SINGH

Independent Non-Executive Director

DATE OF APPOINTMENT

25 April 2019

NATIONALITY

United States

COMMITTEE MEMBERSHIP AND TENURE

Ri S

3.5y 3.5y

SKILLS, EXPERTISE AND EXPERIENCE

Key Skills:
Significant international experience in risk management, governance, retail and corporate banking, insurance, wealth and asset management and sustainability.

Background & Experience:
Raj has 36 years' business, risk and governance experience gained in large and complex global listed financial services organisations including Citibank, Allianz, Swiss Re, Standard Life Aberdeen and EFG International with the last 20 years at the executive committee level as Group Chief Risk Officer. He has served as a Non-Executive Director of a national credit bureau and two listed financial institutions as well as many of the banking, insurance, reinsurance and asset management subsidiaries of those firms. Raj was appointed by the Board, on the nomination of the Irish Minister for Finance, under the Relationship Framework between the Minister for Finance and AIB Group.

KEY EXTERNAL APPOINTMENTS

Non-Executive Director of The Co-operative Bank plc

Non-Executive Director of Vanguard Ireland Limited

COLIN HUNT

Chief Executive Officer & Executive Director

DATE OF APPOINTMENT

8 March 2019

NATIONALITY

Irish

COMMITTEE MEMBERSHIP AND TENURE

S

4y

SKILLS, EXPERTISE AND EXPERIENCE

Key Skills:
Strategic leadership, extensive executive experience covering risk, treasury, research, capital markets, customer focus and sustainability.

Background & Experience:
In March 2019, Colin was appointed Chief Executive Officer of AIB Group. He joined AIB in August 2016 as Managing Director of Wholesale, Institutional & Corporate Banking. Prior to joining AIB, he was Managing Director at Macquarie Capital in Ireland. Previously, he was a Policy Adviser at the Departments of Transport and Finance, Research Director at Goodbody Stockbrokers, Head of Trading Research at Bank of Ireland Group Treasury and a country risk analyst at NatWest. He has a PhD in Economics from Trinity College, Dublin and BComm and MEconSc degrees from University College Cork.

KEY EXTERNAL APPOINTMENTS

Serves on the Board of The Ireland Funds, Ireland Chapter

Ibec clg Board Member

DONAL GALVIN

Chief Financial Officer & Executive Director

DATE OF APPOINTMENT

28 May 2021

NATIONALITY

Irish

SKILLS, EXPERTISE AND EXPERIENCE

Key Skills:
Significant international retail and wholesale banking, capital, liquidity, treasury, investor relations, and risk management skills

Background & Experience:
Donal joined AIB as Group Treasurer in September 2013 and was appointed to the role of Chief Financial Officer in March 2019 and to the Board in May 2021. Donal has gained significant experience working in domestic and international financial markets over the last 25 years. Prior to joining AIB, Donal held a number of senior executive roles including Global Head of Asian Fixed Income & Equities at Mizuho Securities in Hong Kong and a number of senior Global Financial Market Roles across Europe and Asia Pacific for Rabobank. He serves as a Non-Executive Director of Goodbody.

KEY EXTERNAL APPOINTMENTS

None

BOARD COMMITTEES

R	Remuneration	N	Nomination & Corporate Governance	A	Board Audit	Ri	Board Risk	S	Sustainable Business Advisory	T	Technology & Data Advisory	🟩	Committee chair

OUR EXECUTIVE COMMITTEE

		SKILLS, EXPERTISE AND EXPERIENCE
	**CJ** **BERRY** **Chief Enterprise Development Officer**	CJ joined AIB in 2002 and brings with him a wealth of experience across Irish, UK, US and European markets. Over his 20 year career in AIB, he has driven significant transformative change and business development in the Group's corporate and retail businesses. CJ served as Chief Operating Officer Designate from December 2020 until taking up his current role in July 2022. As Chief Enterprise Development Officer, CJ oversees the bank's corporate development and strategy formulation. CJ is an Economics & Philosophy Graduate from Trinity College, Dublin.
	**CATHY** **BRYCE** **Managing Director of Capital Markets**	Cathy started her career in investment banking with Morgan Stanley and subsequently ABN AMRO. She joined AIB in 1996, holding a range of leadership roles in debt capital markets, most recently leading the international leveraged finance business. In 2018 she joined the National Treasury Management Agency where she was part of the executive management team as Director of NewERA and National Development Finance Agency. In 2019 she returned to AIB as Managing Director of Capital Markets. She is a Business graduate of Trinity College Dublin and holds an MBA from INSEAD.
	**GERALDINE** **CASEY** **Chief People Officer**	Chief People Officer Geraldine, is a graduate of University College Cork, joined AIB in January 2020 from her most recent role as Director of People, Communications & IT at Tesco Ireland. She was a member of the Executive Board of Tesco for five years prior to joining AIB and has a wealth of experience working closely with internal and external stakeholders. Geraldine has led large teams through culture, process and organisational change, and has brought that experience to bear in driving AIB's inclusion, culture, people and future of work agendas. Geraldine joined the Board of AIB Group (UK) plc as a Non-Executive Director in May 2021.
	**FERGAL** **COBURN** **Chief Technology Officer**	Prior to his appointment to Chief Technology Officer, Fergal was Chief Digital & Innovation Officer, responsible for the strategy and development of AIB's digital businesses. Over the previous 20 years, he held leadership positions across all aspects of AIB's digital and technology businesses. He currently serves as a Director on the Boards of First Merchant Processing (Ireland) DAC and Payzone Ireland Limited. An electronics engineer, before joining AIB Fergal spent five years in the oil and gas exploration industry as a senior wireline engineer followed by five years with Eircom in network support systems development. He holds Bachelor's and Master's degrees from Trinity College Dublin.
	**HELEN** **DOOLEY** **Group General Counsel**	Helen was appointed Group General Counsel in 2012. She had previously worked in private practice in the City of London, Hong Kong and Dublin, before taking up an in-house role as Head of Legal in EBS Building Society in 2005, which became part of AIB Group in 2011. Over the last 20 years, in addition to her legal role, Helen has also held the Company Secretary position and managed the regulatory compliance and HR functions. Helen is currently responsible for the Legal, Corporate Governance and Customer Care function.

SKILLS, EXPERTISE AND EXPERIENCE

HILARY GORMLEY

Managing Director of AIB Group (UK) plc

Hilary has over 30 years' experience in AIB, enjoying a wide and varied career across retail, commercial and corporate banking, holding a number of senior roles and leading teams across different geographies. She has successfully completed highly strategic priorities for the Group, from leading strategic change programmes to completing large portfolio transactions. Hilary holds a Bachelor's degree in Financial Services from University College Dublin, has completed the Harvard General Management Programme, and is a member of the Institute of Bankers.

MICHAEL FRAWLEY

Chief Risk Officer

Michael joined AIB as Chief Risk Officer in July 2022. A senior risk professional with a 25 year banking career spanning retail, commercial, wholesale, asset management, trade finance, strategy implementation and risk management experience, he also has extensive international experience from his previous roles at HSBC in the UK, Asia and the Americas. His most recent role prior to AIB was as Chief Risk Officer of Permanent TSB. Michael holds an MBA from Columbia Business School, New York and a B.Comm from University College, Cork.

ANDREW MCFARLANE

Chief Operating Officer

Andrew joined AIB in July 2022 and has over 25 years' experience working primarily in the financial services sector, in banks and management consulting firms. His international career has spanned Canada, Australia, England and Ireland and he has held posts such as Managing Director, Accenture Financial Services, Canada and more recently Executive Director of Modernisation & Corporate Strategy, and Chief External Relations Officer at Payments Canada. Andrew holds a Bachelor of Business (Banking & Finance) and a Graduate Diploma in Applied Finance and Investment.

JIM O'KEEFFE

Managing Director of Retail Banking

Jim has held key roles in transforming AIB's retail customer relationships, overseeing the bank's digital services, branch banking and Group mortgages. He also worked at a senior level for AIB's former operations in Poland. In 2015, he joined AIB's Executive Committee as Head of Financial Solutions Group reducing the bank's Non-Performing Exposures (NPEs) while supporting thousands of customers in difficulty. In 2018, he became Chief Customer & Strategic Affairs Officer and since January 2020 has overseen AIB's retail customer franchise, leading c. 4,500 colleagues who serve over 2.8m customers. Jim is also responsible for a number of Group entities and joint ventures including AIB Mortgage Bank, EBS, Haven, AIBMS, Payzone, Nifti and AIB's planned new joint venture with Great West Lifeco. Most recently, Jim was appointed President of Banking & Payments Federation Ireland in January 2023.

MARY WHITELAW

Chief Sustainability & Corporate Affairs Officer

Mary joined AIB in 2007 and her experience has spanned the retail, corporate and treasury businesses. She has held a number of senior leadership roles across the Group including Group Chief of Staff, Head of Strategy & Business Performance for Corporate and Institutional Banking and Head of Corporate Treasury Sales. Prior to joining AIB, Mary trained as a Charted Accountant and Chartered Tax Advisor with PwC. She is a graduate of University College Dublin. Mary is also a Non-Executive Director of Goodbody.

CORPORATE GOVERNANCE REPORT

Chair's Introduction

Dear Shareholder,
On behalf of the Board, I am pleased to introduce the Corporate Governance Report for 2022.

This report, which is aligned to the requirements of the UK Corporate Governance Code 2018, documents the Group's approach to compliance with that Code. Further information on governance practices in place in the Group are available on the Group's website at www.aib.ie/investorrelations.

The Board is committed to ensuring that the highest standards of corporate governance are in place across the Group and see it as critical to achieving our strategy and enhancing our culture. We recognise that a robust governance structure with an effective risk management framework is integral to delivering sustainable growth and shareholder returns.

Jim Pettigrew
Chair

Corporate Governance Framework

Statements of Compliance

This report, in conjunction with the Statement of Directors' Responsibilities, Corporate Governance Remuneration Statement, Risk Governance section of the Risk Management Framework report and the Statement on Internal Control, sets out the Group's approach to governance in practice, the work of the Board and its Committees, and explains how the Group applied the principles of the Central Bank of Ireland's Corporate Governance Requirements for Credit Institutions 2015 (the "2015 Requirements"), European Union (Capital Requirements) Regulations 2014 (S.I. 158/2014) ("CRD") and UK Corporate Governance Code 2018 (the "Code") during 2022 under the headings prescribed by the Code.

Central Bank of Ireland's Corporate Governance Requirements for Credit Institutions 2015 and European Union (Capital Requirements) Regulations 2014

AIB Group plc is authorised as a financial holding company and is not directly required to comply with the 2015 Requirements (which are publicly available on www.centralbank.ie). However, Allied Irish Banks, p.l.c., the principal subsidiary of AIB Group plc, is a credit institution and is subject to the 2015 Requirements, including compliance with requirements specifically relating to "high impact institutions" and additional corporate governance obligations on credit institutions deemed significant for the purposes of the CRD (which is publicly available on www.irishstatutebook.ie). As the governance structures of AIB Group plc and Allied Irish Banks, p.l.c. are mirrored, and acknowledging the importance of adherence to the 2015 Requirements, the compliance status of Allied Irish Banks, p.l.c. is noted herein.

During 2022, Allied Irish Banks, p.l.c. was materially compliant with all of the 2015 Requirements and with the corporate governance aspects of CRD.

UK Corporate Governance Code 2018

AIB Group plc, by virtue of its primary listing on the Main Securities Market of the Euronext Dublin Stock Exchange and its premium listing on the Main Market of the London Stock Exchange, is subject to the provisions of the Code (which is publicly available on www.frc.org.uk). Throughout the year, the Group applied the principles and complied with all provisions of the Code other than in instances related to Section 5: Remuneration, in particular Principles R and Provisions 36, 37 and 38, and the rationale is set out in the table below.

Irish Corporate Governance Annex

Additional obligations apply to the Group under the Irish Corporate Governance Annex (publicly available on www.ise.ie), which applies to relevant Irish companies with a primary listing on the Main Securities Market of the Euronext Dublin Stock Exchange. The Group is fully compliant with the Irish Corporate Governance Annex.

Provisions required to "Explain" under the Code "Comply or Explain" process
Principle R: Exercise of independent judgement and discretion when authorising remuneration outcomes. **Provision 36:** Remuneration schemes should promote long term shareholdings by executive directors that support alignment with long term shareholder interests. **Provision 37:** Remuneration schemes and policies should enable the use of discretion to override formulaic outcomes. **Provision 38:** The pension contribution rates for executive directors, or payments in lieu, should be aligned with those available to the workforce.
Rationale
Due to certain agreements in place with the Irish State, variable remuneration structures are not generally permitted. As such, both decisions relating to Principle R and certain associated provisions (particularly Provisions 36 and 37) and the timing of when the remuneration restrictions may change are outside of the Board's sphere of influence or control. Further detail on the background to these restrictions can be found in the Corporate Governance Remuneration Statement on pages 109 to 114. In relation to Provision 38, the current pension arrangements are considered to be fair due to the remuneration restrictions in place at this time. The rates of contribution for Executive Directors and all employees are fully transparent and are set out in the Corporate Governance Remuneration Statement on pages 109 to 114.

CORPORATE GOVERNANCE REPORT – BOARD FOCUS

KEY FOCUS AREAS

A key focus of the Board for 2022 was on ensuring the delivery of the strategy set in 2020, with a view to closing out on legacy issues, increasing operational efficiency and delivering on the organic and inorganic growth agendas. The Board executed its business as usual duties in line with its Work Programme, and also focused on a number of additional matters that arose during the year. The following is a high level overview of material matters considered by the Board throughout the year:

STAKEHOLDERS

👥 Customers 👤 Employees 🤝 Investors 🏛 Society 📄 Regulators

KEY FOCUS AREAS FOR 2022

	MATERIAL MATTERS CONSIDERED	CONSIDERED
FINANCIAL	AIB Group plc 2021 Annual Financial Report and related Stock Exchange Announcements and analyst presentations; Capital Distributions; Macroeconomic Environment; Expected Credit Losses; Capital Adequacy Statement & Liquidity Adequacy Statement; Quarterly Trading Updates; 2022 Half Yearly Financial Report; 2022-2025 Financial Plan; Consideration of Going Concern and Associated Matters; Pillar 3 Policy.	👥 👤 🤝 🏛 📄
CULTURE AND VALUES	Culture Evolution Programme Updates; Risk Culture; People Updates; IBCB Survey Results; Employee communication and COVID-19 related supports; Vulnerable Customer Programme Update; Speak-Up Policy and Framework; Modern Slavery Act Statement; Workforce Engagement; Health & Safety Annual Update.	👥 👤 🤝 🏛 📄
STRATEGY	Annual Group Strategy Review and Update to Medium Term Targets; Mortgage Market Strategy; Transformation Plan Implementation; Inorganic growth initiatives; Sustainability Strategy and Conference; Cyber Strategy; NPE Strategy and Loan Portfolio Sales; Stakeholder Perspectives; Customer First Business Updates; Corporate Development Opportunities; External Environment in a strategic context; Consideration of Tracker Enforcement Programme.	👥 👤 🤝 🏛 📄
REGULATORY	Regulatory engagement updates; Outcome of the Supervisory Review and Evaluation Process; Market Abuse Regulation; Anti-Money Laundering and Criminal Terrorist Financing Updates; Open Banking/Strong Customer Authentication Implementation; IRB Rollout Plan; Companies Act Directors Compliance Statement; Annual Compliance Statement with CBI Requirements 2015; Consideration of Regulatory Directive Programmes; MiFID Retail Structured Product Review; Fitness & Probity Ongoing Obligations; Related Party Lending (Chairman's Committee).	👥 👤 🤝 🏛 📄
GOVERNANCE	Board Effectiveness Evaluation, Outcomes and Actions; Governance and Organisation Framework; Board Committee Terms of Reference; Board Succession; Annual General Meeting; Board and Committee Composition and Appointments; Board Diversity Policy and Targets; Subsidiary Governance Framework; Goodbody Three Lines of Defence Integration; Annual Review of Non-Executive Director Independence; Review of Directors & Officers Insurance; Renewal of Non-Executive Director Terms; Senior Executive Accountability Regime Programme Updates; Annual Reappointment of Chair; Delegated Expenditure Approval Limits Policy.	👥 👤 🤝 🏛 📄
RISK MANAGEMENT	Group Risk Appetite Statement; Material Risk Assessments; Recovery Planning and Resolvability Plan; Risk Frameworks and Policies; Cyber Security and E-Fraud Reports; Control Effectiveness Review; Second Line Opinion Papers on Material Decisions e.g. Strategy, Financial and Investment Plan.	👥 👤 🤝 🏛 📄
REGULAR UPDATES	Executive Management Updates; Business and Financial Performance; Chair Activities; Board Committee Updates; Group Company Secretary Updates.	👥 👤 🤝 🏛 📄

Matters considered by the Board Committees, which in certain cases were also considered by the Board as a whole, are detailed in individual Board Committee and Board Advisory Committee reports which follow over pages 95 to 117.

Board Leadership and Company Purpose

Role of the Board

The Group is headed by an effective Board which is collectively responsible for the long term, sustainable success of the Group, generating value for shareholders and contributing to wider society. The Board, including the Chief Executive Officer ("CEO"), is supported by the Executive Committee ("ExCo"), being the most senior management committee of the Group. The CEO and ExCo have primary responsibility for the day-to-day operations of, and the development of strategy for the Group.

The Board supports, and strives to operate in accordance with, the Group's purpose and values at all times and challenges Management as to whether the purpose, values and strategic direction of the Group align with its desired culture, or if they do not, whether there are options to mitigate any potential negative stakeholder impacts.

The Board ensures a clear division of responsibilities between the Chair, who is responsible for the overall leadership of the Board and for ensuring its effectiveness, and the CEO, who manages and leads the business. The governance framework and organisational structure is sufficient to ensure that no one individual has unfettered powers of decision or exercises excessive influence. Key roles and responsibilities are clearly defined, documented and communicated to key stakeholders via the Group's website (www.aib.ie/investorrelations). The Board is supported in discharging its duties by a number of Board and Advisory Committees.

Whilst arrangements have been made by the Directors for the delegation of the management, organisation and administration of the Group's affairs, certain matters are reserved specifically for decision by the Board. These matters are reviewed at least annually to ensure that they remain relevant and are available on the Group's website (www.aib.ie/investorrelations).

Conflicts of Interest

The Board approved Code of Conduct and Conflicts of Interest Policy for Directors sets out how actual, potential or perceived conflicts of interest are to be evaluated, reported and managed to ensure that Directors act at all times in the best interests of the Group and its stakeholders. Executive Directors, as employees of the Group, are also subject to the Group's Code of Conduct and Conflicts of Interests Policy for employees.

Stakeholder Engagement

The five principal stakeholder groups in AIB are Customers, Employees, Investors, Society, and the Group's Regulators. In order for the Group to meet its responsibilities to its stakeholders and to ensure that stakeholder views are taken into consideration in its decision making, the Board ensures that effective engagement is maintained with these groups on a regular basis.

The Group engages with stakeholders through various means such as face-to-face meetings including regular and structured engagement and also out of course meetings on specific topics, research, focus groups and surveys, media engagement, direct partnerships and collaboration, sponsorship and community initiatives, participation in expert forums and events, and through the Group's in-house experts liaising directly with associated business, public or charitable groups.

The Annual General Meeting ("AGM") is an opportunity for shareholders to hear directly from the Board on the Group's performance and strategic direction and, importantly, to ask questions. Shareholders are encouraged to attend and participate in the AGM. Details in relation to the 2023 AGM along with other shareholder-related information can be found on page 353 and on the Group's website at www.aib.ie/investorrelations.

There is a Designated Non-Executive Director for workforce engagement whose role is described under "Key Roles & Responsibilities" below.

Further detail on how the Board engages with each of these groups can be found on page 93 in the Section 172 Statement.

Relationship with the Irish State

The Group received significant support from the Irish State (the "State") in the context of the financial crisis due to its systemic importance to the Irish financial system. Following a reduction in its shareholding during 2017, and further reductions in 2022 and 2023 to date, the State currently holds 55.93% of the issued ordinary shares of AIB Group plc.

The relationship between the Group and the State is governed by a Relationship Framework which is available on the Group's website at www.aib.ie/investorrelations.

Within the Relationship Framework, with the exception of a number of important items requiring advance consultation with or consent by the State, the Board retains responsibility and authority for all of the operations and business of the Group in accordance with its legal and fiduciary duties and retains responsibility and authority for ensuring compliance with the Group's regulatory and legal obligations.

In considering the matters reserved for the Board, it should be noted that certain of those matters require advance consultation with, or consent from, the Minister for Finance. The conditions under which such prior consultation or approvals are required are outlined in the Relationship Framework.

The Board is satisfied that the Group has complied with the relevant provisions set out in the Relationship Framework.The Board is also satisfied, as far as it is aware, that the Minister for Finance has complied with the relevant independence provisions set out within the Relationship Framework.

Division of Responsibilities

Key Roles & Responsibilities

Chair

The Chair leads the Board, setting its agenda, ensuring Directors receive adequate and timely information, facilitating the effective contribution of Non-Executive Directors, ensuring the ongoing training and development of all Directors, and reviewing the performance of individual Directors. Mr Jim Pettigrew was appointed as Chair on 28 October 2021. His biographical details are available on page 78.

Deputy Chair

The Deputy Chair, Mr Brendan McDonagh, deputises for the Chair as may be required from time to time and is available to the Directors for consultation and advice. Mr McDonagh's biographical details are available on page 80.

Senior Independent Director

Ms Helen Normoyle was appointed by the Board as Senior Independent Director ("SID") with effect from 1 July 2022, following the resignation of Ms Carolan Lennon as Director. Ms Normoyle acts as a conduit for the views of shareholders and is available as an alternate point of contact to address any concerns or issues they feel have not been adequately dealt with through the usual channels of communication. The SID also leads the annual review of the Chair's performance and succession planning for the Chair role. Ms Normoyle's biographical details are available on page 80.

Designated Non-Executive Director for Workforce Engagement

Ms Elaine MacLean was appointed as the Group's Designated Non-Executive Director for workforce engagement in 2020 in order to enhance the Group's existing workforce engagement mechanisms. The purpose of this role is to engage directly with employees, facilitate two way communication between employees and the Board, and enhance the Board's understanding of workforce views. Ms MacLean's biographical details are available on page 79.

Independent Non-Executive Directors

Independent Non-Executive Directors provide a key layer of oversight, scrutinising the performance of Management in meeting agreed objectives and monitoring reporting against performance. They bring an independent viewpoint to the deliberations of the Board that is objective and independent of the activities of the Management and of the Group. They constructively challenge and help develop proposals on strategy and other key matters. Biographical details for each Independent Non-Executive Director are available on pages 78 to 81.

Chief Executive Officer (CEO)

Dr Colin Hunt manages the Group on a day-to-day basis and makes decisions on matters affecting the Group. The ExCo assists and advises him in reaching decisions on the Group's strategy, governance and internal controls, performance and risk management. Dr Hunt was appointed with effect from 8 March 2019 and his biographical details are available on page 81.

Company Secretary

The Directors have access to the advice and services of Mr Conor Gouldson, the Company Secretary, who advises the Board on governance matters, ensuring that Board procedures are followed and that the Group is in compliance with applicable rules and regulations. Both the appointment and removal of the Company Secretary is a matter for the Board as a whole.

Board and Advisory Committees

The Board is assisted in the discharge of its duties by a number of Board Committees, whose purpose is to consider, in greater depth than would be practicable at Board meetings, matters for which the Board retains responsibility. Each Committee operates under terms of reference approved by the Board and their terms of reference are available on the Group's website at www.aib.ie/investorrelations.

The Board governance structure is available on page 77 and reports from the Board Audit Committee, the Board Risk Committee, the Nomination and Corporate Governance Committee and the Remuneration Committee are presented later in the Annual Financial Report.

In addition to the four main Board Committees, the Board also has a Sustainable Business Advisory Committee and a Technology and Data Advisory Committee. Each of the advisory committees are comprised of Non-Executive Directors and members of senior management from relevant business areas. Overviews of the role and areas of focus of both the Technology and Data Advisory Committee and the Sustainable Business Advisory Committee are available on pages 115 to 117.

Additionally, a Chairman's Committee is established by the Group to act on behalf of the Board between its scheduled meetings to deal with matters of an administrative nature, and take decisions on urgent matters in accordance with the authority delegated to it by the Board, or as specifically set out in its Terms of Reference. These responsibilities include consideration of individual cases in line with the requirements of the Central Bank of Ireland Code of Practice on Lending to Related Parties. The Executive Directors or any impacted Directors are excluded from the decision making process for these individual cases.

Board Meetings

The Board met on 16 occasions during 2022. The Chair and the Chairs of each Committee ensure Board and Committee meetings are structured to facilitate open discussion, constructive challenge and debate. The Board receives a comprehensive Executive Management report on a regular basis. The remainder of its agenda is built from the indicative annual work programme, and includes strategic items for consideration, any activities out of the ordinary course of business, requested in depth reviews and scheduled updates on key projects. There is a set escalation process in place through Executive and Board Committees which ensures the Board receives the necessary information at the appropriate time to enable the right decisions to be taken. The Chair leads the agenda setting process, supported by the CEO and Company Secretary.

In its work, the Board is supported by its Committees which make recommendations where appropriate on matters delegated to them under their respective terms of reference. Each Committee Chair provides an update to the Board on matters considered at the preceding Committee meeting. The agenda, papers and minutes of Committee meetings are generally available to all Directors.

Attendance at the Board and Board Committee meetings is outlined in the table below. Attendance at the Advisory Committees is captured within their respective Committee overviews. The Non-Executive Directors also met throughout the year in the absence of the Executive Directors or other members of Management.

Professional Development and Continuous Education Programme

The Board's professional development and continuous education programme continued throughout 2022 and was designed in conjunction with the indicative work programme to ensure that training was delivered at a time when it would be of most benefit or relevance to the Board.

The sessions were delivered by a mix of internal and external subject matter experts and the topics included Data Protection, Sustainability Regulatory Training, Cryptocurrency, Model Risk Training, Cyber/Operational Resilience, Anti-Bribery and Corruption, and the Future of Banking from a technology perspective. Directors also have access to an online Corporate Governance Library and a suite of AIB Group specific online training courses. Additional training and individual sessions with subject matter experts on areas of interest to the Directors are facilitated upon request.

A structured induction programme is ready to be delivered to any incoming Director and includes a series of meetings with senior management, relevant briefings, together with any specific training identified during the course of the appointment of the individual.

Access to Advice

There is a procedure in place to enable the Directors to take independent professional advice, at the Group's expense, on matters concerning their role as Directors. The Group holds insurance to protect Directors and Officers against liability arising from legal actions brought against them in the course of their duties.

	Board		Board Audit Committee		Board Risk Committee		Nomination and Corporate Governance Committee		Remuneration Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Anik Chaumartin	16	15	14	14						
Donal Galvin	16	15								
Basil Geoghegan	16	13			13	12				
Tanya Horgan	16	15			13	13				
Colin Hunt	16	16								
Sandy Kinney Pritchard	16	16	14	14	13	12				
Carolan Lennon	10	10					6	5		
Elaine MacLean	16	14					10	10	8	8
Andy Maguire	16	15			13	13				
Brendan McDonagh	16	16	14	14	13	13	10	8	8	8
Helen Normoyle	16	16					10	10		
Ann O'Brien	16	15	14	13					8	7
Fergal O'Dwyer	16	16	14	14						
Jim Pettigrew	16	16					10	10	8	8
Jan Sijbrand	16	14			13	12				
Raj Singh	16	15			13	12				

Composition, Succession and Evaluation

Board Composition

At 31 December 2022, the Board consisted of the Chair, who was deemed independent on appointment, twelve Independent Non-Executive Directors and two Executive Directors, being the Chief Executive Officer and the Chief Financial Officer.

A number of Board, Board Committee and Board Advisory Committee changes occurred in 2022 which are set out below.

2022 Changes	Committee Roles	Board	Joined/Removed/ Appointed/ Resigned	When
Carolan Lennon	Member of the Board Risk Committee Member of the Nomination and Corporate Governance Committee Member of the Sustainable Business Advisory Committee	Non-Executive Director and Senior Independent Non-Executive Director	Resigned	30 June 2022
Helen Normoyle		Senior Independent Non-Executive Director	Appointed	1 July 2022
Ann O'Brien	Member of the Sustainable Business Advisory Committee		Stepped Down	15 March 2022
Jan Sijbrand	Member of the Sustainable Business Advisory Committee		Joined	1 July 2022
Andrew McFarlane (Executive Committee Member)	Member of the Technology and Data Advisory Committee		Joined	11 July 2022
CJ Berry (Executive Committee Member)	Member of the Technology and Data Advisory Committee		Stepped Down	11 July 2022

***Note:** In December 2022, Ms. Anik Chaumartin was appointed to the Sustainable Business Advisory Committee with effect from 1 January 2023.*

Board Succession Planning and Appointments

The review of the appropriateness of the composition of the Board and Board Committees is a continuous process, and recommendations for appointment are made based on merit and objective criteria, having regard to the collective skills, experience, independence and knowledge of the Board along with its diversity requirements. The Board Succession Plan is reviewed alongside the Board Skills Matrix by the Nomination and Corporate Governance Committee at each scheduled meeting to allow for proactive and continuous succession planning and, in turn, the timely commencement of Director search processes.

The Board Succession Plan details planned Board composition as well as Board Committee membership, the likely tenure of Non-Executive Directors and upcoming actions to be undertaken. The skills included in the Board Skills Matrix were identified taking into account the Group's strategic priorities and relevant regulatory requirements. Each Director was selected for appointment on the basis of their knowledge, skills and experience which enable them to effectively discharge their duties, ensure the effective governance of the Group, and contribute to its long term, sustainable success. The biographies on pages 78 to 81 sets out the key skills and experience which each Director brings to the Board.

In addressing appointments to the Board, a role profile for the proposed new Directors is prepared on the basis of the criteria laid down by the Nomination and Corporate Governance Committee, taking into account the existing skills and expertise of the Board and the anticipated time commitment required. The services of experienced third party professional search firms are retained for Non-Executive Director appointments where required and deemed necessary by the Nomination and Corporate Governance Committee. In all Director selection activity, the Group ensures a formal and rigorous process is followed.

Prior to a recommendation for appointment of any given candidate, a comprehensive due diligence process is undertaken, which includes the candidate's self-certification of probity and financial soundness as well as, external checks and enhanced due diligence. The due diligence process enables the Nomination and Corporate Governance Committee to satisfy itself as to the candidate's independence, fitness and probity, and capacity to devote sufficient time to the role. A final recommendation is made to the Board by the Nomination and Corporate Governance Committee.

The Relationship Framework specified by the Minister for Finance (the "Minister"), which governs the relationship between AIB and the Minister, on behalf of the Irish State as shareholder, requires the Group to consult with the Minister before appointing, reappointing or removing the Chair or CEO and in respect of any other proposed Board appointments.

A Board-approved Policy is in place for the assessment of the suitability of members of the Board, which outlines the Board appointment process, and is in compliance with applicable joint guidelines issued by the European Securities and Markets Authority and the European Banking Authority.

Terms of appointment

Non-Executive Directors are generally appointed for a three year term, with the possibility of renewal for a further three years on the recommendation of the Nomination and Corporate Governance Committee. Any additional term beyond six years is subject to annual review and approval by the Board. In accordance with practice in recent years and the provisions of the Code, all Directors submit themselves for re-election at each Annual General Meeting. Details of the appointment dates and length of tenure of each Director is available from their appointment dates included in their biographies on page 78 to 81.

Letters of appointment including terms of appointment and appointees' responsibilities, stipulate that a specific time commitment is required from Directors. Copies of Directors' letters of appointment are available to shareholders for inspection at the Annual General Meeting, at the registered office during business hours or on request from the Company Secretary.

Time commitment
Non-Executive Directors are required to devote such time as is necessary for the effective discharge of their duties. The estimated minimum time commitment set out in the letters of appointment is 30 to 60 days per annum including attendance at Committee meetings.

Before being appointed, Directors disclose details of their other significant commitments along with a broad indication of the time absorbed by such commitments. Before accepting any additional external commitments, including other directorships that might impact on the time available to devote to their role, the agreement of the Chair and the Company Secretary, and in certain cases the Board as a whole and/or the Central Bank of Ireland, must be sought.

There is a procedure in place to assess and seek Board approval for any additional external roles proposed by Directors to ensure that there will be no impact on their ongoing suitability or ability to continue to dedicate sufficient time to their Group roles.

There is a procedure in place to monitor Non-Executive Director time commitment on an ongoing basis and the results of this monitoring are reported to the Nomination and Corporate Governance Committee.

Balance and Independence
Responsibility has been delegated by the Board to the Nomination and Corporate Governance Committee for ensuring an appropriate balance of experience, skills and independence on the Board. Non-Executive Directors are appointed so as to provide strong and effective leadership and appropriate challenge to Management.

The independence of each Non-Executive Director is considered by the Nomination and Corporate Governance Committee prior to appointment and reviewed annually thereafter. It was determined that the following Non-Executive Directors in office during 2022, namely Ms Anik Chaumartin, Mr Basil Geoghegan, Ms Tanya Horgan, Ms Elaine MacLean, Mr Andy Maguire, Mr Brendan McDonagh, Ms Helen Normoyle, Ms Ann O'Brien, Mr Fergal O'Dwyer, Ms Sandy Kinney Pritchard, Mr Jan Sijbrand, and Mr Raj Singh were independent in character and judgement and free from any business or other relationship with the Group that could affect their judgement.

In determining independence, the Board had particular regard to the fact that Ms O'Brien and Mr Singh were appointed in 2019 following their nomination by the Minister for Finance in Ireland, who currently controls 55.93% of the Group's issued share capital. In determining that they should properly be considered to be independent, the Board gave due regard to the following matters: the nature and history of the shareholding and the alignment of the Irish State's interests with other shareholders, the nature of the individuals nominated and the process followed in identifying them for nomination, their performance and nature of their contribution to the business of and matters discussed at the Board, and the Relationship Framework with the State. The Board is satisfied that in carrying out their duties as Directors, Ms O'Brien and Mr Singh are able to exercise independent and objective judgement without external influence.

The Chair, Mr Jim Pettigrew, was determined as independent on appointment.

Inclusion and Diversity
Employee inclusion and diversity in the Group is addressed through policy, practices and values which recognise that a productive workforce comprises of diverse backgrounds, cultures, experiences, characteristics and work styles. The Group has implemented a Diversity and Inclusion Code and opposes all forms of unlawful or unfair discrimination. The efficacy of related policy and practices and the embedding of the Group's values is overseen by the Board which in 2022 endorsed the Group's inclusion and diversity strategy supported by short term activities and targets as one of the key focus areas of the Culture Programme. The Board also considers inclusion and diversity within the context of the Group's People strategy and Future of Work strategy.

The Board is supported in its oversight by its Committees, specifically by the Nomination and Corporate Governance Committee which considers diversity as a key element within the context of succession planning for the ExCo and its succession pipeline within the Group. In addition, the Sustainable Business Advisory Committee considers inclusion and diversity in the Group as it relates to that Committee's role in overseeing the Group's efforts to promote economic and social inclusion as part of the sustainability agenda.

With regard to diversity among Directors, there is a Board Diversity Policy in place which sets out the approach to diversity on the Board. This policy is available on the Group's website at www.aib.ie/investorrelations.

The Nomination and Corporate Governance Committee is responsible for developing measurable objectives to effect the implementation of this Policy and for monitoring progress towards achievement of the objectives. The Policy and performance relative to the target is reviewed annually by the Nomination and Corporate Governance Committee, in conjunction with Board succession and skills planning, and any proposed changes to the Policy are presented to the Board for approval. The Board's target, as set out in its Diversity Policy, is that it shall maintain at least 40% female representation and at least one Board member shall be from a minority ethnic group.

The Board recognises that diversity in its widest sense is important, is inclusive of all individuals and is focused on ensuring a truly diverse board. The Board embraces the benefits of diversity among its members and through its succession planning, is committed to achieving the most appropriate blend and balance of diversity possible over time.

In terms of implementation of the Board Diversity Policy, the Nomination and Corporate Governance Committee reviews and assesses the Group Board composition and has responsibility for leading the process for identifying and nominating, for approval by the Board, candidates for appointment as Directors. In reviewing the Board composition, balance and appointments, the Nomination and Corporate Governance Committee considers candidates on merit against objective criteria and with due regard for the benefits of diversity, in order to maintain an appropriate range and balance of skills, experience and background on the Board and in consideration of the Group's future strategic plans. Where external search firms are engaged to assist in a candidate search, they are requested to aim for a fair representation of both genders to be included in the initial list of potential candidates so the Nomination and Corporate Governance Committee have a balanced list from which to select candidates for interview.

At 31 December 2022, the percentage of females on the Board stood at 40% and one Director was from a minority ethnic group, thereby meeting its Board Diversity Policy targets as well as regulatory requirements on gender diversity and best practice guidelines on ethnicity. Additionally, and in line with the UK Listing rule requirement which will become effective for years commencing 1 April 2023, one female Director held a senior board position.

Board Effectiveness

The effectiveness of the Board and that of the Board committees is reviewed annually, with the 2022 review being externally facilitated by Praesta Ireland Limited ("Praesta Ireland"). With significant membership changes during 2020, the Board chose to undertake the external review after just two years instead of awaiting the Code requirement of every three years as the Board sees the review as a way to reflect, examine and find ways to improve.

Praesta Ireland is an independent external consultancy firm, which has no other connection to the Group or individual Directors aside from providing leadership coaching services to the Group from time to time or where Praesta Ireland may have undertaken an evaluation for an external entity to which a Director was appointed. The evaluation and coaching services are provided independently by separate teams within Praesta Ireland.

The various phases of the external performance evaluation process which commenced in August and conducted in December 2022 are set out below. The evaluation included the Board and each of its Committees. Overall, the final report was positive and demonstrated the strength of the Board and its Committees.

The process was facilitated by members of Praesta Ireland team who:

- Met with the Chair to discuss the aims of the evaluation.
- Attended and observed a meeting of the Board of Directors and a number of committee meetings.
- Reviewed a suite of key Board papers, governance documents and minutes.
- Held structured one-to-one interviews with all Directors and ExCo members, the Head of Corporate Governance and the Company Secretary.
- Compiled and issued an extensive questionnaire to Board and ExCo members covering key aspects of Board effectiveness including the composition of the Board, chairing of meetings, internal dynamics, decision making, relationship with the ExCo and Board support.
- Prepared an Effectiveness Evaluation Report and reviewed it with the Chair.
- Prepared findings and proposed areas of enhancement.
- Presented the final report and agreed actions at a Board meeting.

Arising from the evaluation process a number of recommendations were accepted by the Board and actions agreed which will be implemented throughout 2023 with regular check-ins to ensure progress is being made against these actions.

The main recommendations and actions arising from the Praesta Ireland evaluation included:

- Board Papers: Continued enhancements to Board paper content required, with consideration for all stakeholder views to be more clearly articulated.
- Stakeholder Oversight: Objectives to be introduced for each stakeholder group.
- Customer Centric: Continued emphasis on the Customer and Customer Centric outcomes as the central focus of Board deliberations.
- Culture and Risk Management: Maintain visibility on risk management, complexity and accountability, with fresh benchmarking to be considered.
- Purpose: The key priorities from a Board perspective in terms of driving the Group's Purpose to be considered.
- Succession Planning: Enhanced information regarding Board succession planning to be provided to the Board.

Praesta Ireland found that this Board is professional, effective and performing to a very high standard. The Board was observed to have an appropriate mix of skills and sector-relevant experience. Board members worked well together with a sufficient degree of support and challenge provided by the Directors. The Board has a good understanding of its stakeholders including its customers, employees, investors, society and regulators.

Each of the six Board Committees considered the Board Evaluation report insofar as it related to that particular committee and have adopted any actions considered necessary.

Following a review process lead by the SID, there was unanimous agreement by the Non-Executive Directors that the Chair leads the Board in an effective manner, fulfilling Principle F of the Code. It was agreed that he demonstrates objective judgement, promotes a culture of openness and debate, and facilitates constructive Board relations and the effective contribution of all Non-Executive Directors. This in turn supports Non-Executive Directors in fulfilling the requirements of Principle H of the Code in providing constructive challenge, strategic guidance and holding Management to account.

Alongside this process, the Chair conducted evaluations of individual performance of each of the Non-Executive Directors and also led a discussion in private on the performance of the CEO with the Non-Executive Directors in December 2022. The outcome of these evaluations was positive, noting that each Director continues to contribute effectively.

The principal outcomes of the overall evaluation will be reviewed and reassessed as part of the Board's 2023 performance review. The Board also monitored progress on the recommendations from the 2021 internal evaluation carried out by the Corporate Governance function and noted that each action had been substantially completed.

Audit, Risk and Internal Control

The Board has delegated responsibility for the consideration and approval of certain items pertaining to audit, risk and internal control to the Board Audit Committee and Board Risk Committee. Where required, topics are referred onward to the Board as a whole for further discussion or approval.

Information on the activities of the Board Audit Committee and Board Risk Committee in 2022 can be found in their respective reports on pages 95 to 103.

Remuneration

The Board has delegated responsibility for the consideration and approval of the remuneration arrangements of the Chair, Executive Directors, ExCo members, the Company Secretary and certain other senior executives to the Remuneration Committee. A group of senior management is responsible for recommending to the Board the fees to be paid to Non-Executive Directors within the limits set by shareholders in accordance with the Articles of Association.

Information on the activities of the Remuneration Committee in 2022 can be found in the Report of the Remuneration Committee on pages 106 to 108.

SECTION 172 STATEMENT

The manner in which the Board and wider Group interact with our stakeholders continued to evolve in 2022, with a focus on dynamic and active engagement to ensure the interests of all stakeholder groups continue to be taken into consideration in our decision making. Our Board's approach to stakeholder engagement is aligned to the UK Corporate Governance Code 2018, which applies to the Group by virtue of its premium listing on the London Stock Exchange. Whilst not directly applicable to the Group given it is a provision of UK Company Law, the Board continues to recognise the importance and benefits of considering the spirit intended by Section 172 of the UK Companies Act 2006 as part of Group decision making processes. The relevance of each of the stakeholders defined in Section 172 to the decision making process, and the method of engagement, may vary depending on the deliberations being undertaken by the Board.

The Board is cognisant of their responsibility to run the Company for the long-term sustainable benefit of the shareholders, and in doing so, the Directors consider the interests of key stakeholders through all Board deliberations. All Management proposals tabled for decision require clear articulation of the potential impacts of those decisions under each of the strategic pillars, which drives consideration of the interests of stakeholder groups within decision making processes. A balance of stakeholder interests is deemed to be critical to any decision taken by the Board. The way the Board engages with its stakeholders varies and ranges from direct engagement to receiving management reports and updates on relevant matters which assist the Board in understanding the impacts of the Group's operations on its key stakeholders.

A number of examples of Board engagement with and consideration of the impact of decisions on AIB's key defined stakeholder groups are set out below.

OUR STAKEHOLDERS

OUR CUSTOMERS

Who?

Our 3.2m customer relationships are managed by dedicated teams across Retail Banking, Capital Markets and AIB UK.

Our purpose is to back our customers to achieve their dreams and ambitions, and our ambition is to be at the heart of our customers' financial lives by meeting their changing needs at each life stage.

How we engage

The Board receives regular performance updates on our suite of customer related KPIs, including customer journey and service times, Net Promoter Scores and complaints metrics for all customer cohorts. The impact of the changes to the external Irish banking landscape in Ireland, and the need for the Group to respond to customer needs arising from that change were also overseen by the Board to ensure a customer first approach was being continually adopted. The customer first approach was also adopted by the Board in their oversight of the delivery of inorganic transactions so as to ensure customers were safely onboarded to the Group.

OUR EMPLOYEES

Who?

The Group directly employed 9,591 people across Ireland, the United Kingdom and the United States of America.

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

How we engage

On an ongoing basis, the Board monitors performance against metrics in relation to Employee Engagement, Wellbeing, Inclusion and Diversity, Talent Development and other relevant matters. Over the course of 2022, the Board engaged directly with employees through various channels, including interactive sessions as part of Risk in Conversation week and Speak Your Mind week. The Board also participated directly in the recognition of employee contributions to AIB through the annual Employee Value Awards, and the celebration of those individuals who have achieved significant milestone service events in the Group as part of the Long Service Recognition Awards. Elaine MacLean is the Non-Executive Director designated to engage directly with employees on behalf of the Board.

OUR INVESTORS

Who?

The Group has a diverse range of institutional and individual investors, with the Irish State as the most significant shareholder of the Group. In order to ensure that we continue to generate attractive and sustainable returns for all our shareholders, the Board leads the Group in executing its strategy and meetings its financial and non financial targets.

How we engage

The Board receives investor views and feedback as part of the ongoing Investor Relations programme. There is a comprehensive investor relations programme and schedule of investor engagement with the Chair, CEO and CFO participate in on behalf of the Board. The Chair directly meets with the top ten institutional shareholders, along with the CEO and CFO. The outcomes of such engagements are communicated to the other Directors to ensure that the views of major shareholders and the investment community are considered by the Board in their decision making.

SOCIETY

Who?

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

How we engage

The Board continues to be supported in considering stakeholder views in relation to the Group's sustainability strategy through the work of the Sustainable Business Advisory Committee. The annual Sustainability Conference took place in October 2022 and provided an opportunity for the Board to hear directly from a number of stakeholders. The Board also considers the wider impact of decisions taken by the Group on society as part of the governance framework in operation in the Group.

REGULATORS

Who?

Includes the Central Bank of Ireland (CBI), Bank of England, European Central Bank (ECB), European Commission,Single Resolution Board, Prudential Regulatory Authority (PRA), Financial Conduct Authority (FCA), and Federal Reserve Bank of New York. The Board strives to ensure that the Group supports financial stability, consumer protection and market integrity across the jurisdictions in which we operate. Continued strong engagement with our regulators ensures the Group is set up to meet regulatory requirements and expectations.

How we engage

There is a constructive relationship with all supervisors on themes of common interest across consumer, business strategy, capital, liquidity and risk management. Supervisory engagement includes regulatory onsite inspections, thematic reviews and regular engagement with the Board through one-to-one interactions with Committee Chairs and Executive Directors as well as the annual meeting on the Supervisory Review and Evaluation Process. The Group also has a dedicated Regulatory Relations team in place, which reports directly to the Board on a regular basis.

Additional information on how we have considered our stakeholders is available in this Annual Financial Report on pages 17 to 21, where the strategy is presented through the lens of each strategic pillar.

EXAMPLES OF STAKEHOLDER CONSIDERATIONS

SOCIETY AND OUR COMMUNITIES

One of the key strategic pillars for the Group is Sustainable Communities, and the Board is fully aware of how important it is that the Group continues to make a positive and meaningful contribution to the communities in which we operate.

This year, the Group also continued our collaboration with our Community Partners and the support provided through the Community Fund. AIB hosted a Community Partner event attended by As I Am, FoodCloud, Goal, Junior Achievement Award and TASC in September and which a number of Directors attended, where they heard first-hand the impact the work our Community Partners have in our wider community aided through their partnership with AIB, which was a humbling and inspiring experience for all involved.

SUPPORTING OUR CUSTOMERS

The Customer First strategy is a key tenet for the Board in all deliberations, and a Customer First lens is applied to all discussions and decisions to ensure positive customer outcomes are delivered.

Throughout the year, the Board received updates from each of the Business Areas on the delivery of their Customer First Strategy, a key component of their business models and driver of business performance. These updates assisted the Board in their oversight of the application of the customer first approach across the Group and ensuring a holistic approach across the Group. Throughout the year, the Board were provided with Key Risk Indicator metrics linked to customer service within the Direct service centre, focussing on the achievement of service level agreements, any emerging trends of concern, key developments over the month and forecast RAG ratings over the short to medium time horizon. The Board evidenced improvements over the year, and also took the opportunity as a collective in November to visit one of the AIB contact centres to engage with employees, listen first-hand to the experience and challenges which may arise for customers, and further understand the plans in place for the continued improvements to technology, data and customer proposition capabilities into 2023.

In direct response to increased demand following the withdrawal of both Ulster Bank and KBC from the Irish Banking market, the CEO and Executive team put in place the necessary steps and additional investment required to proactively onboard new customers throughout the year. The Board supported the Executive team in this decision, considering the key risks associated with the approach taken by the Group, and subsequently provided ongoing oversight on progress against the roadmap put in place. Reflective of both the value of this investment and the significant efforts made by staff over the course of the year, as at 31 December 2022, 49% of migrating customers had successfully opened accounts with the Group.

Additionally, following an initial decision taken by the Board to the Group's plan to withdraw cash from 70 branches as part of a wider branch repurposing plan, the Board supported the CEO in his recommendation to no longer proceed with the proposed changes to banking services, in recognition of strong feedback from a number of key stakeholder groups, including our customers and wider society.

Improving customer experience will remain a key focus of the Board in 2023.

EMPLOYEE ENGAGEMENT

As Designated Non Executive Director, Elaine MacLean's role is to engage directly with our employees, on behalf of the Board, to ensure that the employee voice is brought to the Board and is considered in its deliberations. In 2022, Elaine engaged with a group of employees with a view to generating meaningful engagement and encouraging the sharing of employee ideas and concerns, facilitating a two-way communication flow between the Board and the workforce, in order to further enhance the Board's understanding of workforce views and concerns.

Following that engagement, a number of actions, centred on the future shape of work, the evolution of the Group's hybrid working model following the pandemic, and talent development and career progression arose as a consequence of the activity, and were communicated to the Board.

The Chair and CEO also took the opportunity during the year to engage directly with another critical cohort of employees through an engagement session with c.100 employees participating in the AIB Graduate & Apprenticeship Programme. The session was an interactive and collaborative session, and provided an opportunity for employees to have their say.

STAKEHOLDERS

Customers

Employees

Investors

Society

Regulators

REPORT OF THE BOARD AUDIT COMMITTEE

SANDY KINNEY PRITCHARD,
Committee Chair

> “The Committee has focussed on quantifying the impacts of economic volatility on the financial statements, with attention to the integrity of the related financial disclosures and the supporting internal control environment.”

Q&A

Q. What have been the challenges the Committee has faced this year?

A. Working closely with the Board Risk Committee, the Committee has spent a considerable amount of time assessing the potential impact of the prevailing macro-economic environment on the IFRS 9 Expected Credit Loss ("ECL") allowance for the Group. This assessment was completed through the detailed review and challenge of the macroeconomic scenarios, and the appropriate weighting of those scenarios, with the need for a nuanced approach to the various jurisdictions in which the Group operates, as well as the application of management judgement and related adjustments as required. The Committee is satisfied that the outcome of a total ECL allowance of €1,618 million is stage appropriate and reflective of the outcome of those considerations.

Q. What do you see as one of the Committee’s key priorities in the coming year?

A. Along with the standing work programme for the year ahead, and critical to the successful discharge of the Committee’s responsibilities over 2023 will be the oversight of a seamless and effective transition of the External Auditor role, ensuring continued focus on the integrity of the financial statements and associated control environment. Additionally, the Committee will prioritise the evolution of internal reporting capabilities and disclosure requirements relating to ESG reporting as the Group strives to deliver against increasing external reporting requirements and standards.

On behalf of the Board Audit Committee (the ‘Committee’), I am pleased to report on the Committee’s primary areas of focus and how it has discharged its responsibilities for the year ended 31 December 2022.

In line with its Terms of Reference, which can be found on the Group’s website at www.aib.ie/investorrelations, the objective of the Committee is to monitor the Group’s financial and non-financial reporting process, reviewing and monitoring the effectiveness of risk management and internal control systems, overseeing the Group’s Internal Audit function, ensuring appropriate whistleblowing arrangements are in place and advising the Board on the appointment and independence of the Group’s External Auditor. The Committee reports to the Board on how it discharges its responsibilities on an ongoing basis and makes recommendations to the Board during the year. Over the course of 2022, the Committee continued to provide oversight of minor enhancements to an already robust and effective control environment, which is considered a critical enabler for the Group in delivering on its strategic ambitions.

As reported last year, Deloitte will complete their maximum allowable term of 10 years in office as statutory Auditor when they report in 2023 on this financial year. Following the approval by the Board of the appointment of PwC as incumbent Auditor, this will be presented to the shareholders for approval at the Annual General Meeting on 4 May 2023. The effective transition of the audit has been a matter of focus for the Committee over the year, with the incoming Auditor fully engaged in the established governance processes since the end of 2022.

The Committee currently comprises five Non-Executive Directors, all of whom are considered by the Board to be independent and whom the Board have determined have the skills, competence and recent and relevant experience to enable the Committee to discharge its responsibilities. With no changes to Committee membership, Members have had the opportunity to further enhance its deliberations during the year, with particular strength in the areas of finance, accounting, audit and technology.

To ensure co-ordination of the work of the Committee with the Board Risk Committee, two members of the Committee are also Members of the Board Risk Committee, with this common membership providing ongoing oversight of risk and finance issues. Effective 1 January 2023, one Member of the Committee will also sit on the Sustainable Business Advisory Committee to ensure alignment and shared oversight of Non Financial Disclosure requirements in relation to ESG matters. A number of joint meetings of the Committee and the Board Risk Committee were also held during the year to allow discussion on matters of common interest. The biographies of Committee Members are set out on pages 78 to 81, with details of the Committee’s Membership and attendance at meetings outlined on page 88.

The Chief Financial Officer, Group Chief Risk Officer, Group Head of Internal Audit and the Lead Audit Partner from Deloitte normally attend all Committee meetings and have also been joined in more recent times by the incoming Lead Audit Partner from PwC.

In order to provide additional opportunity for open dialogue and feedback, the Committee holds closed sessions with members of Executive Management, the Group Head of Internal Audit and the Lead Audit Partner throughout the year without members of Management being present.

The Committee has exercised its authority delegated by the Board for ensuring the integrity of the Group’s published financial information by reviewing and challenging the disclosures made by Management, and the judgements, assumptions and estimates on which they are based. The Committee has applied judgement in deciding which of the issues it considered to be significant in the financial statements, and the following pages set out the material matters that it has considered in those deliberations.

Towards the end of 2022, the Committee invested significant time in specific education sessions on ESG matters, which focussed on an overview of external expectations and requirements on non financial sustainability disclosures and related regulations, emerging industry practises on disclosures, and potential industry challenges with data quality and limitations. These education sessions were undertaken in advance of the Committee taking on responsibility for the review of the detailed Non Financial Disclosures set out in the Sustainability chapter of this Annual Report, and enabled the Committee to develop their understanding of the disclosure requirements and underlying processes in place. In addition to discharging its assigned duties and responsibilities, I expect this work of the Committee to continue into 2023, with further development of the control environment to support ESG related disclosures anticipated. The Committee will continue to work closely with the Sustainable Business Advisory Committee in this regard, with a view to ensuring that the impact of climate change on the financial statements is well understood, and disclosed appropriately by the Group.

I would like to take this opportunity to sincerely thank the outgoing Audit Partner, John McCarroll, and the wider Deloitte team for their professionalism, expertise and engagement with the Committee over the past ten years.

I would also like to thank my fellow Committee Members for their unwavering support and dedication during 2022.

Sandy Kinney Pritchard
Committee Chair

Financial reporting

A key activity for the Committee is the consideration of significant matters relating to the Annual Financial Report, with key accounting judgements and disclosures subject to in depth review with Management and the External Auditor. A summary of these judgements is set out below, and are disclosed in detail within note 2 "Critical accounting judgements and estimates" on page 257.

ACTIVITIES FOR THE YEAR

KEY ISSUES	COMMITTEE CONSIDERATIONS	COMMITTEE CONCLUSION
DEFERRED TAXATION	The Group has recognised deferred tax assets for unutilised losses of €2,742 million (€2,840 million in 2021). The recognition of deferred tax assets is reliant on the assessment of future profitability and the sufficiency of those profits to absorb losses carried forward. In assessing the recognition of the deferred tax assets, significant judgements are made as to the projection of long term future profitability of the Group, given the period over which recovery extends. Through its deliberations, the Committee considered a range of positive and negative evidence presented by Management, which is further detailed on page 257. Based on the Group's three year financial plan and the application of a profit growth rate of 2% from 2026, the Committee noted that it will take less than 15 years for the Irish Deferred Tax Asset to be utilised. The Committee further noted that c.65% of the Deferred Tax Asset will be utilised within 10 years. In considering the utilisation period, the Committee noted that there are inherent uncertainties in the long term financial assumptions and projections applied, given the range of macroeconomic effects that may impact the Group's long term profitability. For the UK, 15 years is the period that taxable profits are considered more likely than not.	In light of the evidence presented by Management, the Committee provided their continued support of the recognition policy in place for deferred tax assets. The Committee also agreed that the Management judgements applied were appropriately supported by the Group's long term financial and strategic plans.
IFRS 9 AND THE IMPAIRMENT OF FINANCIAL ASSETS	The process for undertaking the assessment of the appropriateness of ECL requires use of a number of accounting judgements and estimates, some of which are highly subjective and very sensitive to risk factors, including: • Changes to macroeconomic conditions; • The determination of the criteria for a significant increase in credit risk; • The application of the definition of default policy for classifying financial instruments as credit impaired; • The efficacy of IFRS 9 models in use; and • The estimation and methodology for post-model adjustments ("PMAs"). In assessing these key judgements and estimates, the Committee received and reviewed regular reports from Management on the ECL position, as well as reports from the Risk function on the outcome of assurance processes relating to ECL levels and the strength of the underlying governance in place to support the ECL calculation. The Committee met in joint session with the Board Risk Committee on a number of occasions in order to review, challenge and subsequently recommend the proposed changes to the macroeconomic scenarios in use in the ECL models to the Board for approval. Consideration and approval of the weightings applied to these scenarios was also granted by the Committee. PMAs, whereby modelled outcomes are adjusted for management judgements, totalling €608 million were also approved. These PMAs were considered appropriate in the context of the execution of the Group's Non Performing Exposure resolution strategy and emerging headwinds arising from the macro environment, including cost of living challenges. They also incorporate a specific assessment of the potential impact of a more challenging UK macro economic environment outlook.	Following detailed assessment of the conclusions made by Management, and the approval of the underlying scenarios therein, the Committee is satisfied that the judgements and assumptions utilised in determining the total ECL provision stock of €1,618 million, and year end charge of €7 million, are appropriate.

ACTIVITIES FOR THE YEAR

KEY ISSUES	COMMITTEE CONSIDERATIONS	COMMITTEE CONCLUSION
PROVISIONS FOR LIABILITIES AND COMMITMENTS	The Group recognises liabilities where it has present legal or constructive obligations as a result of past events and it is more likely than not that these obligations will result in an outflow of resources to settle the obligations. A degree of judgement is applied based on a range of information available at the time. Further details of the Group's overall provision for liabilities and commitments of €262 million are shown in note 34 to the financial statements. This note includes further detail in relation to the FSPO decision regarding tracker mortgage customers. A number of separate provisions are not considered to have a significant risk of material adjustment in the next financial year. Significant Management judgement and estimation is required in this process which, of its nature, may require revisions to earlier judgements and estimates, particularly in establishing provisions and the range of reasonable potential losses. It is accepted that a range of outcomes are possible, however, the provision in place at 31 December 2022 reflects Management's best estimate of provision amounts based on the available information.	Based on the assessments undertaken, the Committee is satisfied that the provision for liabilities and commitments is reasonable, and reflective of the related uncertainties and the judgemental nature of key assumptions.
RETIREMENT BENEFIT OBLIGATIONS	There is a significant degree of judgement and estimation in the calculation of retirement benefit liabilities. The Committee gave due consideration to the reasonableness of defined benefit obligations and of the underlying actuarial assumptions in use, including the discount rate, inflation rates and pensions in payment increases, and approved these assumptions as inputs in the calculation of the IAS 19 pensions position for the AIB Group Irish pension scheme.	Based on the work performed, the Committee is satisfied that the assumptions supporting the retirement benefit obligations are reasonable.
INVESTMENT IN SUBSIDIARY IN THE SEPARATE FINANCIAL STATEMENTS	The Company undertook an impairment review by comparing the carrying value of the equity investment in Allied Irish Banks, p.l.c. with its estimated recoverable amount. The Company tested its investment in Allied Irish Banks, p.l.c. for impairment and this resulted in a reversal of an earlier impairment amounting to €3,282 million. Testing for impairment requires considerable estimation. The key estimates and assumptions used in assessing the value in use of the Company's investment in the subsidiary, which were considered by the Committee are as follows: • The estimation of expected cash flows based on the financial plan for 2023-2025; • The assumption of an appropriate growth rate; and • The estimation of an appropriate discount rate, including the assumption of an appropriate risk free rate and the assumption of an appropriate credit spread.	Based on an assessment of the information provided, the Committee is satisfied that the judgements and estimates that support the reversal of previous impairments are reasonable.
GOING CONCERN AND LONG TERM VIABILITY	The Directors are required to make an assessment and confirm whether they have a reasonable expectation that the Group will be able to continue to operate and meet its liabilities as they fall due for a specified period. The viability statement must also disclose the basis for the Directors' conclusions and explain why the period chosen is appropriate. In considering both the assessment of the Group as a going concern and in support of the viability statement, the Committee considered a range of factors, including the Group's detailed financial planning forecasts, as well as the capital position of the Group, with due regard for potential stress events and the impact of the macroeconomic environment. The Committee also assessed a number of activities undertaken over the course of the year relating to the risk profile, capital, liquidity and funding positions, and recovery and resolution planning.	In the absence of any material uncertainties or doubts as to the Group's ability to continue as a going concern, the Committee recommended to the Board that the financial statements be prepared on a going concern basis. Based on the assessment undertaken, the Committee was satisfied that three years was a suitable timeframe for the Viability Statement, and recommended the Viability Statement to the Board for approval. The Viability Statement is available for review on page 120.

KEY AREAS OF FOCUS

Financial Reporting

During the course of the year, the Committee considered each of the areas above and the significant matters pertaining to this Annual Financial Report and the Group's Half-Yearly Financial Report for the six months ended 30 June 2022. The Committee concluded that it could recommend to the Board for approval on the basis that the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

In addition, as integral to that review of both this Annual Financial Report and the Half-Yearly Financial Report, the Committee considered the minutes of the Group Disclosure Committee, an Executive level Committee which is tasked with providing oversight of material Group disclosures, in advance of making any recommendations to the Board. Periodic Pillar 3 reporting is also subject to robust governance and review processes, and the Committee reviewed and approved the year end 2021 and Half-Yearly 2022 Pillar 3 disclosures.

Internal Audit

The Committee is responsible for considering and approving the remit of the Internal Audit function, approving the internal audit plan, and ensuring it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. It also receives the function's reports and evaluates the adequacy and timeliness of the Group's responses to them. The Committee ensures that the Internal Audit function has adequate standing and is free from management or other restrictions which may impair its independence.

Following significant engagement with and due consideration by the Committee Chair and wider Committee, a revised Target Operating Model for Group Internal Audit ("GIA") was considered, with implementation of that operating model tracked by the Committee. Increased resourcing has been focussed on specific skillsets such as Credit Risk and Data Analytics, with a view to ensuring that the Internal Audit function is well positioned to protect the Group and our Customers into the future. In addition, the Committee has also worked with the Group Head of Internal Audit to implement a number of enhancements over the period, including revised reporting processes.

Following approval of the annual audit plan, the Committee receives updates on a regular basis regarding audit plan delivery, and any revisions to the annual plan, which are considered with due regard for the overall risk profile of the Group. Significant findings of internal audit reports and Management's responses were discussed at meetings of the Committee throughout the year. Any overdue actions were reviewed and challenged by the Committee.

The Group Head of Internal Audit provides the Committee with regular assessments of the skills and resources required to deliver the audit plan and whether the internal audit budget is sufficient to recruit and retain staff, or to procure subject matter expert resources with relevant experience. During the year, the Chair of the Committee met regularly with the Group Head of Internal Audit between scheduled meetings of the Committee to discuss audit issues arising and insights into the control environment.

The Committee also considered the annual and half-year internal audit opinion in relation to the overall control environment, as well as enhancements to the methodology utilised to arrive at that assessment. Additionally, the Committee considered GIA's approach for ensuring adherence to Article 191 of the Capital Requirements Regulation including the output of the Annual General Risk Assessment relating to Internal Models and the related annual work plan as detailed in the 2022–2024 Audit Plan.

The Group Head of Internal Audit has unrestricted access to the Chair of the Board Audit Committee.

External Audit

The Committee has primary responsibility for overseeing the relationship with, and performance of, the Group's external Auditor, Deloitte. The Audit Committee reviewed the terms of engagement and monitored the independence and effectiveness of the Auditor. The remuneration of the Auditor for the year 2022 was also considered by the Committee and recommended to the Board for approval.

The Committee provided oversight of the Auditor, including a review of the Auditor's internal policies and procedures for maintaining independence and objectivity and consideration of their approach to audit quality and materiality. The Committee carefully considered the half-year review report and audit plan as presented by Deloitte to the Committee. The Committee also reviewed the performance of the Auditor and assessed the qualifications and expertise of their resources as well as considering the Auditor's findings, conclusions and recommendations arising from their work. In line with monitoring the objectivity, independence and effectiveness of the Auditor and in accordance with the EU Audit Regulations 537/2014 and Directive 2014/56/EU, which was transposed into Irish law on 25 July 2018, an update was received in relation to the Group's policy on the hiring of former employees of the Auditor. The Group's policy is that the Auditor and its affiliates may be used for non-audit services that are not in conflict with the Auditor's independence and where sound commercial reasons exist. This policy, which outlines the types of non-audit fees for which the use of the Auditor is pre-approved or requires specific approval, was reviewed and approved by the Committee and all non-audit services and fees were approved in accordance with Group policy. Further details on the approach can be found at the Group's website at: https://aib.ie/investorrelations. Details of fees paid for audit and non-audit services are outlined in note 13.

KEY AREAS OF FOCUS

Deloitte were appointed as the Group's Auditor in 2013 and, in accordance with the relevant regulatory requirements, will complete their maximum term of 10 years with the audit for the year ended 31 December 2022. Following the approval by the Board of the appointment of PwC as Auditor of the Group with effect for financial year end 31 December 2023, a resolution to this effect will be presented to the shareholders at the Annual General Meeting of the Company on 4 May 2023. The Committee will remain focussed on the smooth transition of the external audit from Deloitte to PwC over the coming months.

Speak Up and Code of Conduct

The Group is committed to providing a safe, respectful and inclusive environment for all staff. The Committee reviews the arrangements in place that allow workers to raise any concerns, in confidence, about possible wrongdoings in financial reporting or other matters. Given this important role in relation to whistleblowing and protected disclosures, the Committee Chair met with the Group Head of Speak Up to discuss material cases and enhancements to Speak Up arrangements over the course of the year, and also participated in a panel discussion with employees as part of the "Speak Your Mind" week.

The Group has a Speak Up Policy, which allows workers to report concerns safely and confidentially about suspected wrongdoing related to the Group through designated channels, including through a dedicated Speak Up channel and to nominated senior leaders. Annual training on the Speak Up policy is available for employees, with 94% of the workforce undertaking this training in 2022.

The Committee also undertook their annual review of the Code of Conduct Framework, with no enhancements to the existing framework identified at this time. The Committee also received updates from Management on the operation of the Speak Up process and the Committee further considered reports on the operation of the Group Code of Conduct.

Internal Controls

The Group's internal control and risk management systems are embedded within the organisation structure and it is the Committee's responsibility to review the adequacy and effectiveness of the control environment on behalf of the Board. Throughout the year the Committee:

- Received updates from the Chief Financial Officer, aligned to the half-year and year end reporting timelines, regarding the testing, operation and effectiveness of the system of controls over financial reporting.
- Received updates from the Director of Sustainability and Customer Affairs regarding the testing, operation and effectiveness of the controls in place to support mandatory Non-Financial Disclosures.
- Reviewed and advised the Board on the appropriateness of the Directors' statements in this Annual Financial Report relating to the Group's systems of internal controls.
- Reviewed the outcomes of half-year and year end overall assessments of the control environment undertaken by Group Internal Audit.
- Reviewed quarterly reports from the Group Chief Risk Officer regarding the credit control environment.
- Received updates regarding the approach to aligned assurance across the three lines of defence, with progress updates on delivery of the aligned assurance plan provided over the course of the year.

The Committee, having assessed the above information over the year, is satisfied that the internal control and risk management framework is operating effectively.

Subsidiary Oversight

Over the course of the year, the Committee Chair met with a number of the material subsidiary audit committee Chairs outside of the regular scheduled Committee meetings in order to discuss audit committee priorities and to gain a full understanding of matters of relevance or concern for the individual subsidiaries. In his role as Chair of the Goodbody Audit Committee, Committee Member Fergal O'Dwyer also provides a strong link from the Committee to that entity. The Committee Chair also attended a number of material subsidiary audit committee meetings throughout the Group. The Committee received an annual report from the audit committees of each of AIB Group (UK) p.l.c., EBS d.a.c., AIB Mortgage Bank u.c., and Goodbody and also regularly reviewed the minutes of those audit committees to ensure effective oversight and awareness of any issues and discussion themes.

REPORT OF THE BOARD RISK COMMITTEE

BRENDAN MCDONAGH
Committee Chair

> “The Committee maintained risk oversight of the implementation of the Strategy with an enhanced focus on Change Risk and Operational Capacity. It also considered the risks arising from the deteriorating economic environment, including geo-political risk, inflationary pressures and the cost-of-living and energy crisis.”

Q&A

How is the Board Risk Committee addressing Environmental, Social and Governance (“ESG”) risk and the risks associated with climate change?

A.Sustainability is a key pillar of the Group’s Strategy and continues to be a key area of focus. In terms of its oversight role, the Committee received updates on climate risk during the year and reviewed in detail, and recommended to the Board for approval, the Group ESG Framework. The purpose of the ESG Framework is to ensure the overall approach to the management of key components of the ESG agenda are clearly defined and well understood across the Group and to enable the achievement of the Group’s strategic objectives in line with our risk management framework while delivering on regulatory requirements and the commitments made to our stakeholders.

How is the Committee considering the risks associated with the cost-of-living and energy crisis?

A. The Committee considered in detail the risks associated with the economic environment and assessing the impact of the cost of living and energy crisis on our customers and the Group, leveraging the frameworks adopted during Brexit and COVID-19 pandemic. The Committee also reviewed actions taken by the Group to manage credit risk in light of these challenges maintaining a strong focus on the Group’s credit risk profile and its trajectory during the year.

Chair Overview

On behalf of the Board Risk Committee (‘the Committee’), I am pleased to report on the Committee’s activities and how it has discharged its duties during 2022. The purpose of this report is to provide an insight into the workings of, and the key matters considered by, the Committee over the course of the year.

The primary purpose of the Committee is to assist and advise the Board in fulfilling its risk governance and oversight role. In addition to fulfilling its comprehensive responsibilities as set out in the Committee’s Terms of Reference, detailed consideration was given to a broad range of existing and emerging risks, such as the continued uncertainty posed by the changing economic environment including rising interest rates, inflation, the cost-of-living and energy crisis and the war in Ukraine, along with the impact of these events on the Group’s risk profile and the Group's customers. The Committee provided oversight and challenge from a risk perspective on the integration of Goodbody Stockbrokers into the Group as well as on the acquisition of the Ulster Bank portfolios. Consideration was given to the impact of these acquisitions on the Bank’s risk profile as well the application of the Group’s suite of risk frameworks and policies to Goodbody and the Ulster Bank portfolios. The Committee also provided risk oversight of the implementation of the Group Strategy with a particular focus on Change Risk and Operational Capacity. A summary of the key areas of focus for the Committee throughout 2022 is set out overleaf for your information.

Committee Membership

The Committee currently consists of seven Non-Executive Directors, all considered by the Board to be independent.

To ensure co-ordination between the work of the Committee and that of the Board Audit Committee, Ms Sandy Kinney Pritchard, Chair of the Board Audit Committee, and I are members of both Committees. This approach assists with providing effective oversight of risk and audit and finance matters. To ensure co-ordination between the work of the Committee with that of the Sustainable Business Advisory Committee, Mr Raj Singh and Mr Jan Sijbrand are members of both of these Committees.

To ensure the Group’s remuneration policies and practices are consistent with and promote sound and effective risk management, I also sit on the Remuneration Committee. Details of the membership of each of the Committees and attendance at meetings are outlined on pages 88.

The Group Chief Risk Officer has unrestricted access to the Committee and attends all Committee meetings. The Chief Financial Officer, Group Head of Internal Audit, the lead External Audit partner and the Chair of AIB Group (UK) p.l.c. are also invited to attend all Committee meetings.

Looking ahead to 2023, the Committee’s focus will continue to be on the management of emerging risks, ensuring appropriate oversight of the Group’s risk appetite, risk management structure, frameworks and policies to ensure the Group delivers on its Strategy in an appropriate risk controlled regulatory compliant manner. Aligned to the emerging risk profile and the external operating environment, there will also be continued emphasis on the Environmental, Social and Governance risk agenda and on the threats posed from the external cyber risk landscape as well as focus on macroeconomic risk issues such as inflationary pressures, the impact of the cost of living and energy crisis and geo-political risks. Such risk areas, will continue to be monitored through the ongoing reporting provided to the Committee. The oversight of the delivery of the Group’s IRB rollout Plan will also be a key focus area of the Committee during 2023.

In what has been another busy year for the Committee, I would like to thank my fellow Committee Members and Executive colleagues for their significant contributions over the past twelve months.

On behalf of the Committee, I would also like to take this opportunity to welcome Mr Michael Frawley who was appointed as Group Chief Risk Officer in July 2022. We look forward to working with Michael in the coming years.

Brendan McDonagh
Committee Chair

KEY AREAS OF FOCUS

PRINCIPLE RISK CONSIDERATIONS

Operational Risk & People and Culture Risk

The Committee reviewed the ongoing operational risk profile throughout 2022, and considered deep dives on areas such as Fraud and the Transformation and Change programmes. Given the pace and level of change in the Group, the Committee were very much focused on Execution Risk, People Risk and organisational capacity, recognising the challenges faced with respect to delivering the additional business demands arising from the delivery of key change initiatives including regulatory programmes, responding to changes in the Irish banking market, the Group's inorganic growth strategy as well as the business as usual agenda in a customer focussed, safe and controlled manner. The Committee also focused on ensuring that an effective framework for managing operational risk was in place, including detailed consideration of the Operational Resilience Framework, which was subsequently recommended to the Board for approval. Updates were received with respect to third party risk management, providing oversight of key outsourcing and critical arrangements across the Group. The Committee also reviewed in detail and provided feedback on a proposed Group Outsourcing Strategy. Work on the Outsourcing Strategy will continue into 2023 to ensure an appropriate framework is in place so that outsourcing decisions are made in a risk-controlled manner and in line with the Group’s Business Strategy.

Throughout 2022, the Committee received regular updates on Cyber Security covering the main internal and external cyber threats facing the Group and including updates on the findings from cyber simulation exercises run during the year. Additionally, cyber and operational resilience training was provided to the Board as a collective as part of its continuous education programme. Cyber capability and IT resilience continues to be a key focus area for the Group, with a refresh of the current Group Cyber Strategy planned for 2023.

Credit Risk

During 2022, the Committee regularly considered the overall asset quality and credit risk profile of the Group with a particular focus on credit performance and trends given the uncertain economic environment and cost of living crisis. The Credit Risk profile was reported to the Committee as remaining stable during 2022 and the Committee remained alert to any potential emerging signs of stress through regular monitoring of the credit risk profile and overall business performance. There was also continued focus on the Group’s credit control environment. The Committee remained cognisant of the external pressures on customers arising from inflation and the impact of the cost of living and energy crisis, as well as any residual long-term impact of COVID-19 and this was reflected in an update to the Group’s overall credit risk appetite in quarter four 2022. The Committee also considered and challenged, in conjunction with the Board Audit Committee, the macroeconomic scenarios and appropriate weighting of those scenarios, for use in the Group’s Expected Credit Loss models.

Regulatory Compliance Risk Management

Oversight of the Group’s adherence to and delivery of regulatory compliance commitments continued to be a key focus for the Committee. Throughout the year, the Committee received regular updates from the Group Chief Risk Officer and the Group Chief Compliance Officer regarding the status of the regulatory compliance risk profile including updates on prudential regulation, conduct of business regulation, Financial Crime and Data Protection, at each of its scheduled meetings. The Committee also received updates regarding the delivery of specific regulatory change programmes, including the European Banking Authority Loan Origination and Monitoring programme, the Strong Customer Authentication eCommerce programme and delivery against implementation of the 5th Anti-Money Laundering Directive.

Financial Crime risk was considered throughout the year, through ongoing reporting as well as standalone updates provided by the Money Laundering Reporting Officer. The Committee received reports regarding the outcome of the 2022 Group Financial Crime Business Risk Assessment, which reviewed the Anti-Money Laundering/Counter Terrorist Financing and Financial Sanctions control environment across the Group. Given the enhanced level of Financial Sanction activity arising from Russia’s invasion of Ukraine, this was also a key focus area for the Committee. The Committee also received updates in relation to the embedding of an enhanced Financial Crime Operating Model in the Group.

Financial and Market Risks

The Committee received regular updates with respect to financial and market risk throughout 2022 including the impact of financial market volatility on the Group’s overall risk profile as a result of the war in Ukraine, inflation, interest rate rises and credit spread volatility. The Committee also considered financial risk deep-dives on Interest Rate Risk in the Banking Book and Funds Transfer pricing within the context of liquidity risk management.

KEY AREAS OF FOCUS

Conduct Risk

The management of Conduct Risk and delivering fair outcomes for customers continued to be a core objective for the Group. In addition to the regular reporting received throughout the year regarding the status of the Conduct Risk profile, including updates on current trends, the status of restitution programme and customer complaints metrics, the Committee considered how Management was taking a holistic customer focused approach to respond to the changing macroeconomic environment including actions taken by the Group to manage credit risk during the current cost-of-living challenges.

Capital, Funding and Liquidity

Throughout 2022 the Committee assessed reports from Management to ensure that the Group had appropriate buffers in place in excess of the Group's own minimum Capital & Liquidity targets, as well as regulatory Capital & Liquidity requirements. To this end, the Committee reviewed and recommended capital, funding and liquidity planning, including consideration of Group ICAAP and ILAAP reports, with particular reference to the contingent capital and the related Group wide stress test scenarios. Following an in-depth review with the Board Audit Committee, the Committee recommended macroeconomic scenarios for use within the ICAAP to the Board for approval. The Committee are satisfied that the capital and liquidity adequacy of the Group has been well demonstrated in a range of scenarios. The Committee also welcomed the ICAAP and ILAAP assessments that were undertaken as part of the analysis and due diligence of potential strategic acquisitions.

Business Model Risk

The Committee focussed on Business Model Risk throughout 2022, receiving regular reports regarding the status of this risk in the context of delivery of the Financial Plan and medium-term targets. The Committee focussed on strategic execution risk and the potential risks arising from the delivery of the Group's inorganic growth initiatives, both in terms of the business model risk profile and the operational risk profile. In providing oversight of the risks associated with these key change initiatives, the Committee received updates on the onboarding of the entities and portfolios and the manner in which these would be integrated into the overall risk management framework of the Group. The Committee remains cognisant of the potential risks arising from further deterioration of the economic environment, and how this might impact Business Model Risk and so this will remain an area of continued focus in 2023.

Model Risk

The Committee continued to receive regular reports on model capabilities across the Group, as well as progress against key regulatory deliverables. The Committee considered regular IRB model updates as well as looking in detail at a revised IRB Rollout plan, which was subsequently recommended to the Board for approval. Additionally, regular Model Risk Reports for all model types – IRB and IFRS 9 – were considered, with an assessment of model risk improvements and progress against deadlines undertaken. The status of the quality and adequacy of models were assessed through independent validation, the outcome of which was also reported to the Committee.

OTHER RISK CONSIDERATIONS

Climate Risk

Climate Risk continues to be recognised as a key risk driver with significant impact across the Group's material risks. During the year, the Committee considered and recommended to the Board for approval a new quantitative risk statement and a review of the existing qualitative appetite statements related to climate risk to reflect the Group's Strategy and external commitments within the Group's RAS. The Committee also received updates on climate risk quantification and considered in detail the ESG Framework which ensures that the overall approach to the management of key components of the ESG agenda are clearly defined and well understood across the Group. In addition, the Committee approved amendments to its Terms of Reference to enhance the governance arrangements supporting the oversight and decision making undertaken by the Board and Board Committees in relation to ESG matters, including co-ordination with the work of the Sustainable Business Advisory Committee and Board Audit Committee in this area.

Regulatory Engagement

Throughout the year, the Committee considered regular updates regarding the status of Risk Mitigation Programme action plans, as well as the upstream regulatory horizon. The Committee also considered and recommended, as appropriate, Management action plans put in place to address findings identified as part of regulatory inspections. Consideration was also given to any relevant regulatory correspondence which required the Committee's attention. The Chair of the Committee met with the Joint Supervisory Team on two occasions in his role as Chair of the Committee, which were helpful and instructive engagements in furthering the Committee's understanding of the key areas of focus of the JST.

Risk Appetite, Risk Profile and Risk Strategy

The Committee reviewed and recommended the 2023 Group Risk Appetite Statement ("RAS") to the Board for approval during the year and also exercised oversight of performance against the 2022 Group RAS, making recommendations to the Board as appropriate. Oversight was achieved through the ongoing monitoring of the risk profile against agreed Group RAS metrics, as well as consideration of an updated risk posture in light of the changing macroeconomic environment, whilst ensuring alignment to the Group's strategic objectives. The Committee reviewed regular reports from the Chief Risk Officer which provided an overview of the status, profile and trajectory of the Group's key material risks. The Committee also considered and recommended the assessment of the material risks facing the Group to the Board for approval.

REPORT OF THE NOMINATION AND CORPORATE GOVERNANCE COMMITTEE

ELAINE MACLEAN
Committee Chair

> "Central to succession considerations are diversity, gender balance and the tailored development of core competencies that reflect a changing business and regulatory environment."

Q&A

Q. Following the appointments to the Board in 2021, has there been a change in the Committee's assessment of the size and composition of the Board?

A. At 31 December 2022, the Board consisted of the Chair, who was deemed independent on appointment, twelve Independent Non-Executive Directors and two Executive Directors, being the Chief Executive Officer and the Chief Financial Officer. There were significant changes to the size and composition of the Board during 2021 following the appointment of six independent Non-Executive Directors and one Executive Director. The increased size and breadth of skills on the Board have enhanced its capacity to manage future succession needs as and when they arise. Ensuring that there is continuity of leadership and oversight is central to the Committee's ongoing assessment of the suitability of the size and composition of the Board. These needs and related risks are also assessed from the standpoint of the Committees of the Board.

Q. How does the Committee oversee the rollout and application of consistent standards of governance across the Group?

A. The Committee annually reviews the governance and organisation framework for the Group and the framework supporting the oversight of its subsidiary companies, including associates and joint ventures. Any necessary changes to the frameworks require the approval of the Group Board. In 2022, the frameworks were updated to reflect new and evolving regulatory requirements and to respond to changes in the Group's organisational structure, including the integration of Goodbody following its acquisition in 2021. Central to the Committee's considerations is the need to ensure the continued and efficient alignment between the frameworks of the Group and its subsidiary companies.

Chair Overview

This report provides an overview of the Committee's key areas of focus for the year ended 31 December 2022 and its priorities for the year ahead. Following the changes to the composition and size of the Board in 2021, the focus of the Committee in 2022 has been on assessing and planning for the Board's future succession needs which is supported by the Board Skills Matrix.

The Committee oversees the onboarding and induction of the new Executive and Non-Executive Directors and the Committee continued to oversee appointments to the Goodbody Board during 2022.

In 2022, the Committee completed its annual assessment of the independence of the Non-Executive Directors, which confirmed the continued independence of the Non-Executive Directors.

On the recommendation of the Committee, the Board appointed Ms Helen Normoyle as Senior Independent Director (following the retirement of Ms Carolan Lennon on 30 June 2022).

The Committee has also continued its focus on the development of the succession plans and processes for the members of the Group's Executive Committee and Heads of Control Functions as they are critical to the delivery of the Group's strategy. Central to such considerations are diversity, gender balance and the tailored development of core competencies that reflect a changing business and regulatory environment.

In addition to its review of the Corporate Governance Frameworks, the Committee also reviewed the schedule of Matters Reserved for the Board and the Group's Conflict of Interest Policy and there were no material changes.

Committee Membership

The Committee consists of four members: three Independent Non-Executive Directors, namely Ms Elaine MacLean, Committee Chair, Mr Brendan McDonagh and Ms Helen Normoyle, Senior Independent Director, and the Chair of the Board, Mr Jim Pettigrew. In addition to being a Committee member, Mr Brendan McDonagh is also the Chair of the Board Risk Committee and this cross-membership supports information flow and co-ordination between the work of the two Committees. The biographies of the Committee Members and a record of attendance at meetings are set out on pages 78 to 81 and page 88.

Meeting Participation

The Chief Executive Officer and Chief People Officer attended Committee meetings except where the business of the meeting related to their successors. The Committee also regularly met with no Management present during 2022.

A summary of the other key areas of focus for the Committee throughout 2022 is set out below.

I would like to thank my fellow Committee Members for their continued commitment through another busy year.

Elaine MacLean
Committee Chair

KEY AREAS OF FOCUS

Board Succession Planning, Renewals and Board Committee Composition

The Committee recognises that having the right balance of skills, experience and diversity of background on the Board is key to supporting the continued delivery of the Group's strategy. The size, structure, composition and succession plan of the Board, Board Committees and Corporate Officers was a standing item on the agenda of scheduled Committee meetings in 2022. During the year the Committee identified deputies or successors to the Chairs of the Board's main Committees to ensure that succession arrangements are clear and that leadership of the Committees is secured.

Chair Reappointment

In line with the CBI Corporate Governance Requirements for Credit Institutions 2015, the Board having considered the Committee's recommendation approved the reappointment of Mr Jim Pettigrew as Chair of the Board.

Executive Succession Planning & Appointments

Review of the Executive Committee composition and succession planning was considered on an ongoing basis by the Committee during the year. In addition to broader succession planning activities, the Committee considered specific proposals regarding Heads of Control Function and Executive Committee member appointments. The Committee approved the appointment of preferred candidates for the roles of the Chief Operating Officer and Chief Enterprise Development Officer. The Committee remains focussed on the succession arrangements for the Executive Directors and has instructed a refresh of these succession plans.

Diversity

The Committee reviewed the Board Diversity Policy and recommended the inclusion of an ethnic diversity target of at least one Board member from an ethnic minority background, which reflects the Group's commitment to diversity. Our gender diversity statistics for the Board can be found on pages 90 and 91. Senior management, which for this purpose is considered to be the Executive Committee, was 42% female and 58% male, and of their direct reports was 37% female and 63% male.

Board Evaluation

In accordance with the CBI Governance Requirements and the UK Code the Board is required to complete an annual self-evaluation, which should be externally facilitated at least every three years. While the next external evaluation was not due until 2023, the Board agreed with the Committee's recommendation that there was merit in commissioning an externally facilitated evaluation in 2022 as the Board Chair and the most recently appointed Directors were more than a year in office. Following a tender process, the Committee recommended the appointment of Praesta Ireland to carry out the Board effectiveness evaluation. The key findings of Praesta Ireland's review are described on page 91.

Corporate Governance

The Committee oversees and monitors corporate governance arrangements and makes recommendations to the Board to ensure that the standards and arrangements across the Group are consistent with existing corporate governance standards and emerging best practice. The Committee undertook its annual schedule of work in relation to the Group's governance arrangements, corporate governance compliance, and related policies including:
- a review of the internal policies on the assessment of suitability of members of the Board and key function holders;
- a review of the governance framework for the Group and its subsidiaries;
- a review of the Board's Code of Conduct and Conflicts of Interest Policy for Directors;
- a review of the Board Diversity Policy and diversity targets;
- a review of the ongoing independence of Non-Executive Directors;
- a review and assessment of sufficient time commitment for incoming Directors and existing Board members;
- a review of the ongoing collective suitability of the Board;
- oversight of compliance with applicable corporate governance requirements and guidelines;
- oversight of upstream regulatory developments in corporate governance and best practice;
- oversight of the external Board Effectiveness Evaluation 2022; and
- consideration of workforce engagement processes via the Designated Non-Executive Director.

Further details on a number of these matters are available in the Corporate Governance Report.

Subsidiary Board and Committee Composition

The Committee considered a number of executive and non-executive appointments to the Group's material subsidiary Boards and the respective Board Committee membership, including for AIB Group (UK) p.l.c., AIB Mortgage Bank u.c., EBS d.a.c. and Goodbody Stockbrokers u.c. Such appointments included the recommended appointment of independent Non-Executive and Executive Director members of the Group Board to the subsidiary Boards and Committees, where established, to ensure appropriate information flow, oversight, consistency and alignment between the Group and its subsidiaries.

The Committee also considered Non-Executive Director term anniversaries and made recommendations for re-appointment to the subsidiary Boards where relevant, taking account of ongoing suitability considerations.

REPORT OF THE REMUNERATION COMMITTEE

ELAINE MACLEAN
Committee Chair

> “The Department of Finance Retail Banking Review published in November 2022 is expected to form a central feature of the Committee’s work programme in 2023, as the current remuneration restrictions are partially eased.”

Q&A

Q. How do the Group’s remuneration policies and practices support the Group’s Strategy and Values, and promote long-term sustainable success?

A. The Group’s Remuneration Policy is aligned with the culture of the Group and its five strategic pillars, and support employees to consistently perform at the highest level and in the interests of customers. The Group’s Remuneration Policy is designed to attract, motivate, engage and retain employees to grow and sustain the Group’s business. The performance management process, Aspire, also provides a clear link between performance and remuneration. The Group’s remuneration model and structure also promotes a strong risk management culture and risk-taking that is consistent with the Group’s Risk Appetite Statement.

Q. What have been the key risks and challenges in implementing a competitive, performance-based remuneration model across the Group?

A. The operation of the Group’s Remuneration Policy has been constrained by the remuneration restrictions contained in the State Agreements following the recapitalisation of the Group in 2010 and 2011 and, consequently, the Group has been unable to implement a performance related, competitive market-driven compensation and benefit structure to retain and incentivise senior talent. This has been a key risk to the future stability and performance of the Group as the loss of senior talent could have a significant, negative impact on the Group’s strategic ambition and direction. Following the publication of the Retail Banking Review in November 2022, which confirmed the easing of the remuneration restrictions, Management has engaged with the Committee in relation to potential changes to the Group’s remuneration model and structure, including variable remuneration and employee benefits.

Q. Are risk considerations central to the business of the Committee?

A. Yes, firstly the Group Chief Risk Officer is a permanent attendee of the meetings of the Committee and each material proposal for decision is accompanied by a Risk View paper. Furthermore, the Group Risk function annually reviews the Group’s Remuneration Policy (including any changes considered by Management); oversees the setting of the risk adjustment process for variable remuneration (for Goodbody); and assesses the appropriateness of the process for identification of Material Risk Takers. The Chair of the Board Risk Committee is also a member of the Committee, which supports coordination between the two Committees.

Chair Overview

This report provides an overview of the Committee’s key areas of focus for the year ended 31 December 2022 and its priorities for the year ahead.

In 2022, the Committee maintained its focus on the governance and oversight of the remuneration structures in place across the Group, including oversight of the variable remuneration arrangements for Goodbody employees, which remains a separately regulated legal entity within the Group and operates a variable remuneration structure for its employees. The Committee believes that such activity will assist it during 2023 in its consideration of any changes to the Group’s remuneration model and structure following the easing of the remuneration restrictions. The Committee also considered Gender Pay, including the publication of the Group’s Gender Pay figures in the UK and Ireland.

Priority for 2023

A key area of focus for the Committee in 2023 will be its consideration of the governance of the Group’s evolved remuneration model and structure, including the introduction of variable remuneration and employee benefits across the Group. The Committee will engage with Management to ensure that such changes meet regulatory requirements and best practice guidance, and will be in the best interests of employees, shareholders and other stakeholders, in particular, customers, by supporting and promoting the long-term, sustainable success of the Group. The retention by the Government of the salary cap means that the Group is not able to remunerate senior management on an equal footing with its competitors and the Committee will continue to monitor the impact of the cap on the recruitment and retention of senior talent.

Further detail on the Group’s Remuneration Policy and the oversight of the Committee is available in the Corporate Governance Remuneration Statement which follows this report. Other key areas of focus for the Committee during 2022 are set out below.

I would like to thank my fellow Committee members for the commitment they have shown throughout 2022.

Committee Membership
The Committee consists of four members: three Independent Non-Executive Directors, namely Ms Elaine MacLean, Chair, Mr Brendan McDonagh and Ms Ann O'Brien, and the Chair of the Board, Mr Jim Pettigrew, who joined the Committee with effect from 1 January 2022. In addition to being a Committee member, Mr Brendan McDonagh is also the Chair of the Board Risk Committee and this cross-membership supports information flow and co-ordination between the work of the two Committees. The biographies of the Committee members and a record of attendance at meetings are outlined on pages 78 to 81 and 88.

Meeting Participation
The Chief Executive Officer, the Chief People Officer and other members of Management are invited to attend meetings at the Committee's request and where required for the business of relevant meetings. The Chief Risk Officer is a permanent attendee at meetings to provide a risk view on any matters submitted for the Committee's consideration except where the Committee is considering the Chief Risk Officer's own remuneration or that of peers. The Committee operates under the principle that no individual shall be involved in decisions regarding their own remuneration and no member of Management is permitted to attend where a matter for discussion relates to their own remuneration.

Support for Committee
The Committee was supported in its work by the Group Reward team and by PricewaterhouseCoopers LLP (PwC UK) as the external remuneration consultants appointed by the Committee in 2019. Following a review of potential advisers and the services provided, Korn Ferry were appointed as the external remuneration consultants, effective October 2022, replacing PwC UK, whose appointment term ended at that time. Both Korn Ferry and PwC UK are signatories to the voluntary code of conduct in relation to remuneration consulting in the UK.

Aside from their work supporting the Committee, during 2022 PwC UK and its network firms provided professional services in the ordinary course of business including advisory, regulatory and taxation related services to AIB which ended on 30 September 2022, and, from time to time, provide services to individual Directors as part of directorships or executive roles held outside of the Group. The Committee is satisfied that the advice received is independent and objective.

Elaine MacLean
Committee Chair

KEY AREAS OF FOCUS

Remuneration Policy

The Committee conducted its annual review of the Group's Remuneration Policy and noted that while the Policy has been significantly constrained by the terms of the State Agreements following the recapitalisation of the Group in 2010 and 2011, it is operating effectively and as intended, and within its prescribed principles and parameters. The Group's Remuneration Policy was also confirmed to be Gender neutral. The annual review of the Policy was undertaken by Group Reward with input from Group Risk. Apart from the updates to the Policy in relation to Goodbody (for variable remuneration), there have been no material changes to the Group's Remuneration Policy, practices or structure in 2022. The Group's Chief Risk Officer presented to the Committee on the Risk function's annual review of the Remuneration Policy and there were no significant regulatory compliance issues. Group Internal Audit also completed an annual audit of remuneration compliance with EBA Guidelines, Capital Requirements Directive and the State Agreements, including the process for the identification of Material Risk Takers and no material actions were identified.

The Committee also considered how executive remuneration aligned to wider employee remuneration and confirmed that as the Group's Remuneration Policy applies to all employees and executives, all remuneration is based on the same policy and principles.

For the vast majority of Group employees, the current remuneration structure predominantly consists of fixed pay elements, including base salary, employer pension contributions and non-financial benefits. Increases in remuneration are performance based, determined by performance against objectives that reflect the Group's strategy, goals and values and such assessments typically occur as part of the annual pay review process. Increases may also arise through progression and promotion and, in exceptional cases only, through out-of-course salary increases to retain key talent and skills. The Committee confirmed that these processes continued to be closely managed and monitored in line with financial performance and budgetary parameters.

The Committee also confirmed that the Group's remuneration policies and practices were transparent to the wider employee population; the Group's Remuneration Policy was published on the external website and the internal intranet; and pay related policies such as the Progression Reward Policy are also available to employees on the internal intranet.

Further details on the Group's Remuneration Policy are available in the Corporate Governance Remuneration Statement which follows this report.

Goodbody Stockbrokers Remuneration Governance – Variable Remuneration

During 2022, the Committee continued its oversight of remuneration matters within Goodbody and the engagement and communication mechanism between the Goodbody Board and the Group Board on remuneration matters. The Committee considered and approved the identification of a number of Goodbody roles as Material Risk Takers of the Group.

Remuneration of Individuals

The Committee considered a number of individual remuneration proposals at Executive Committee and Head of Control Function level in line with its terms of reference.

Subsidiary Chair and Non-Executive Director Fees

The Committee considered proposals to revise the fee structure in place for the Non-Executive Directors of its material subsidiary, AIB Group (UK) p.l.c. These changes were recommended to the Board for approval with a view to ensuring market alignment in the fees offered.

Gender Pay Gap Reporting

The Committee received updates on analysis and benchmarking undertaken with regard to the Group's inaugural public reporting of Gender Pay in Ireland and the UK. The Committee, supporting the Board, will continue to oversee Management's progress to narrow Gender Pay gaps.

Compliance and Annual Reviews

The Committee conducted its programme of annual reviews including a review of the process for identifying Material Risk Takers and the limited variable commission schemes in operation across the Group. Each review was accompanied by a view from Group Risk to support the Committee in its oversight of same. Further details on the identification of Material Risk Takers are available in the Corporate Governance Remuneration Statement which follows this report.

Directors' Remuneration

Details of the total remuneration of the Directors in office during 2022 and 2021 are provided in the Corporate Governance Remuneration Statement on pages 109 to 114.

External Directorships held by Executive Directors

Dr Colin Hunt is a Non-Executive Director of The Ireland Funds, Irish Chapter. He was a Non-Executive Director and President for 2021/2022 of the Institute of Bankers in Ireland. During 2022, Dr Hunt was appointed as a board member of Ibec, the Irish Business and Employers Confederation. He received no remuneration for any of these roles.
Mr Donal Galvin does not hold any Non-Executive Directorships outside of the Group. He is a Non-Executive Director of Goodbody. Mr Galvin does not receive remuneration for this role.
Limitations on such external directorships are outlined in the Capital Requirements Directive and both of the Group's Executive Directors are fully compliant with these limitations.

CORPORATE GOVERNANCE REMUNERATION STATEMENT

Remuneration Constraints

The Group has been required to comply with executive pay and compensation restrictions following the Group's re-capitalisation by the Irish Government in 2010 and 2011. AIB's inability to implement market aligned remuneration practices and, in particular, the inability to offer senior management remuneration on an equal footing with competitors for talent in the market represents a key risk to the Group. The Remuneration Committee (the 'Committee') monitors and endeavours to address this risk on an ongoing basis.

In December 2022, the Irish Government eased most remuneration restrictions impacting the Group, while retaining the cap on base salaries of €500,000 and a limit on variable remuneration of €20,000 per employee in each twelve-month period. The Government's consent is required for payments above these amounts and the Excess Bank Remuneration Charge continues to apply. Consequently, to better align with industry practice and following on from the Government's easing of remuneration restrictions, AIB has updated its Remuneration Policy as described below.

As part of the acquisition of Goodbody in 2021 (it was agreed with the Department of Finance that the remuneration restrictions that apply to AIB would not apply to Goodbody employees, and that they could continue to remain eligible for variable remuneration.

Remuneration Policy and Governance

The Group Remuneration Policy (the 'Remuneration Policy') sets the framework for all remuneration related policies, procedures and practices for all employees and Directors of the Group. The principal aim of the Remuneration Policy is to support AIB in becoming a bank to believe in, recognised for outstanding customer experience and superior financial performance.

The Remuneration Policy is designed to:
- Foster a truly customer focussed culture;
- Create long term sustainable value for our customers and shareholders;
- Attract, develop and retain the best people; and
- Safeguard the bank's capital, liquidity and risk positions.

Both the Committee and the Board recognise that the long-term success of the Group is dependent on the talent of employees, in particular, the ability to consistently perform at the highest level in the best interests of our customers.

The Group's remuneration philosophy aims to ensure that remuneration is aligned with performance and that employees are rewarded fairly and competitively for their contribution to the Group's success and growth. The Group is committed to a simple, transparent and affordable reward structure, which is fair, performance based, and both externally and risk aligned.

The scope of the Remuneration Policy includes all financial benefits available to all employees and Directors of the Group and extends to all individual subsidiaries, entities and branches, including all employees of the Group at consolidated and sub-consolidated levels.

The Remuneration Policy is governed by the Committee on behalf of the Board. The Committee is responsible for determining the Remuneration Policy and for overseeing its implementation. The Committee oversees the operation and effectiveness of the Remuneration Policy, as well as the process for the identification of Material Risk Takers ('MRTs').

The Committee further ensures that the Remuneration Policy and practices are reviewed at least annually, taking into account the alignment of remuneration to the Group's culture, and market and regulatory developments. The annual review is informed by input from the Group's risk and internal audit functions to ensure that remuneration policies and practices are operating as intended, are consistently applied across the Group and are compliant with regulatory requirements.

The Committee's governance role in this respect is outlined in its Terms of Reference, which are published on the AIB website at committee-terms-of-reference and the Remuneration Policy is also published on the AIB website.

The Group continues to comply with the applicable requirements of the UK Corporate Governance Code (the "Code") and uses the Code to inform the Group's decision making and disclosures. The Group also complies with the Shareholder Rights Directive II ("SRD II") in Ireland to the extent applicable. Due to the historic constraints on variable remuneration, certain requirements of the Code and SRD II were not applicable to the Group for 2022 and prior years. The Group will continue to review applicable Code requirements following the easing of the restrictions on variable remuneration by the Irish Government.

Regarding provision 40 of the Code, the Remuneration Policy sets the framework which underpins remuneration policies and practices for executive directors. In particular:
- Clarity – Remuneration arrangements have defined parameters which are clearly outlined in the Remuneration Policy.
- Simplicity – The Group is committed to a simple reward structure as outlined in the Remuneration Policy.
- Risk – The Group's existing fixed remuneration arrangements have operated under strict Government remuneration constraints. The design of the new and any future variable remuneration schemes will have a robust link between pay and performance with safeguards in place to ensure outcomes are appropriate, including risk adjustment. The Committee will be able to adjust formulaic outcomes for Executive Directors and members of the Executive Committee (the 'ExCo') to ensure alignment with performance and risk-based considerations.
- Predictability – When a variable scheme is introduced in the future specific details, including maximum opportunity levels, performance targets and worked examples, of directors' future remuneration will be included in any new proposed remuneration policy.
- Proportionality – The Group's existing remuneration structure only provided for the awarding of limited individual awards in certain circumstances in 2022. In future years, where variable remuneration can be awarded, the Committee will have the ability to adjust formulaic outcomes where they are not proportionate to the financial or non-financial performance of the Group.
- Alignment to Culture – The Remuneration Policy is aligned to the Group's culture and values. Performance measures used to determine the outcome of variable remuneration arrangements will reflect the culture and values of the Group, including its commitment to ESG.

In relation to provision 41 of the Code:
- Executive Director remuneration is governed by the Remuneration Policy and determined by the Committee.
- Career levels have been established with market related pay ranges for each level. All employees are mapped to a career level and associated pay range based on their level of accountability.
- The Report of the Committee describes the operation of the Remuneration Policy.
- As a result of the announcement by the Irish Government in December 2022 to ease certain remuneration restrictions, we have updated the Remuneration Policy (as summarised below). Given the limited nature of these changes and the fact that the previous remuneration restrictions generally remained in place during 2022, shareholder engagement was not required in this area during 2022.
- The Corporate Governance report references engagement with the workforce.
- Given the general absence of variable remuneration during 2022 discretion has not been a material factor.

It should be noted that some of the provisions of the Code (notably Principle R, provisions 36 and 37) were not entirely applicable to AIB in 2022, as the Group did not operate variable incentive arrangements for the Executive Directors during the year or in previous years due to Government restrictions.

Summary of Changes

The Remuneration Policy has been updated to provide for:
- The introduction of a short-term variable remuneration scheme for all employees, including Executive Directors and ExCo members, not exceeding €20,000 per employee per year based on company performance (as summarised in the Remuneration Elements table below). Employees will be offered the choice of taking any award in cash or, where feasible, in shares or a combination of both.
- The provision of healthcare benefits to all employees.
- The satisfaction of regulatory requirements that had previously not been applicable due to the Government's remuneration restrictions.

Following the introduction of the short-term variable remuneration scheme, the Group will explore the potential to use vehicles such as An Approved Profit Share Scheme ("APSS") in the Republic of Ireland and a Share Incentive Plan ("SIP") in the UK. The Group is also considering the introduction of an SAYE (Save As You Earn) scheme for all employees. Details regarding the final design of the short-term variable remuneration scheme will be disclosed in AIB's 2023 Annual Financial Report.

In respect of Executive Directors, proposed remuneration structures will be as detailed in the Remuneration Elements table below.

In the event of the removal of the salary cap, AIB will consider the impact of such change.

Compliance with Relevant Regulatory Requirements

Remuneration policies, procedures and practices reflect the provisions, where applicable, of national and EU legislation, continuing Irish Government remuneration restrictions, the Capital Requirements Directive ("CRD"), the Investment Firms Directive ("IFD"), corporate governance requirements issued by the Central Bank of Ireland, and relevant guidelines issued by the European Banking Authority ("EBA") and other regulatory authorities. The provisions of the EBA Guidelines on sound remuneration will be applied to AIB's proposed new variable remuneration scheme. In particular, the Remuneration Policy incorporates the provisions of the EBA Guidelines in relation to the ongoing design, implementation and governance of remuneration.

Pillar 3 and Other Remuneration Disclosures

The Group publishes additional remuneration disclosures in the annual Group Pillar 3 Report. These disclosures provide further information about the Group's remuneration policies and practices and, more specifically, qualitative information about:
- The bodies that oversee remuneration; the design and structure of the remuneration system for those individuals who have been identified as MRTs.
- The ways in which current and future risks are taken into account in the remuneration processes.
- The ratios between fixed and variable remuneration set in accordance with the regulatory requirements.
- The ways in which the Group seeks to link performance and remuneration.
- The ways in which the Group seeks to adjust remuneration to take account of long-term performance.
- The main parameters and rationale for the variable remuneration scheme for which MRTs are eligible and the use of derogations in Article 94(3) of the CRD.

These disclosures also include quantitative information, in aggregate form, about the amounts and structure of the remuneration of MRTs.

The Group's Pillar 3 Report is available on the Group website.

EBA remuneration benchmarking requirements require the Group to disclose remuneration data in respect of all staff, MRTs and high earners (those earning above €1 million) to the Central Bank of Ireland. The Group continued to comply with these reporting requirements during 2022. There were no employees whose total remuneration exceeded € 1 million during 2022.

During 2022, the Group published its Gender Pay Gap Report for 2021 in relation to its UK based employees. The disclosures are available on the AIB (GB) website, www.aibgb.co.uk. With the introduction of gender pay gap legislation in Ireland, AIB also published its Irish Gender Pay Gap Report in 2022 in respect of its employees based in the Republic of Ireland. The disclosures are available on the AIB website, www.aib.ie.

Material Risk Takers and Risk Oversight

The Group is required to maintain a list of employees whose professional activities have the potential to have a material impact on the Group's risk profile. The list of MRTs is prepared using a combination of qualitative and quantitative criteria in accordance with the relevant EU regulations and guidelines together with additional criteria specific to the Group's structure, business activities and risk profile. The list is prepared at Group and subsidiary levels.

The Group's risk function provides an assessment of the risks impacting the Group and performance against the Group's Risk Appetite Statement to ensure that the Remuneration Policy is aligned with the Group's risk profile. The Group's Chief Risk Officer reviews the list of MRTs in conjunction with Group Reward and provides the Committee with an annual assessment of the risks facing the Group to ensure that policies and practices are consistent with and promote sound and effective risk management.

Reward Structure and Operation in 2022

During 2022, remuneration across the Group continued to be principally comprised of fixed pay elements encompassing base salary, allowances, employer pension contributions and non-financial benefits. Base salary is the principal component of fixed remuneration and is designed to be fair and competitive and set according to appropriate salary ranges which reflect the size and level of responsibilities attached to each role.

Allowances mainly consist of non-pensionable cash allowances which are payable to eligible senior employees to recognise equivalent benefits and allowances available in the market. AIB places considerable emphasis on the need for employees to plan for an appropriate standard of living in retirement and a pension scheme is available to all employees for that purpose. All of the Group's defined benefit pension schemes were closed to future accrual by 31 December 2013 and all Group employees accrue pension benefits on a defined contribution basis from 1 January 2014. Further details in respect of the Group's fixed pay elements are provided in the table below.

Increases to salary in 2022 were awarded following the annual pay review process, through promotion, progression and, in exceptional cases, through out-of-course increases to retain key talent and skills.

In 2022, the Group agreed to a 3 year pay deal which provides pay certainty for our employees at Career Levels 1-3. Employees at Career Levels 4-6 received pay increases which were linked to their performance.

The Group operates "Appreciate", a non-cash staff recognition programme for employees. In 2022, following approval from the Department of Finance, a cost-of-living award to the value of €1,000 was made to all AIB employees (in Career Levels 1-5 in the Republic of Ireland, UK and US).

The remuneration of Executive Directors and members of ExCo was determined and approved by the Committee. All remuneration to directors and employees was compliant with the relevant remuneration constraints in place during 2022.

The Group operates three business specific variable commission schemes, which are designed to protect the rights and interests of customers via robust customer centric performance criteria, the prevention of conflicts of interest and the assessment and mitigation of risks to the customer. For those limited numbers of employees who currently participate in these schemes (and no Executive Director participates in these schemes), sustainability risk is considered as part of the determination of final award outcomes. The maximum amount payable to any individual per year is €20,000. There is also a separate EBS Tied Agency Remuneration scheme, for which the required monitoring is performed by the EBS d.a.c. senior management team. This ensures that payments made do not provide any incentive for excessive risk taking or the mis-selling of products. Details of the EBS Tied Agency Remuneration Scheme are reported to the Board of EBS d.a.c.

As stated earlier, a separate reward structure applies to employees of Goodbody, which was not subject to the remuneration restrictions in place for AIB Group during 2022, as agreed with the Department of Finance. The remuneration structures at Goodbody comply with all applicable remuneration regulatory requirements.

Remuneration of Executive Directors and Executive Committee Members

The remuneration of Executive Directors and members of the ExCo is determined by the Committee on appointment by reference to external benchmarks to provide an appropriate level of competitive remuneration, within the parameters of remuneration restrictions, commensurate with the size and functional responsibilities attaching to their roles. No Director nor employee is involved in the decision-making process around their own remuneration.

In line with remuneration restrictions on variable pay and a cap on individual salaries and allowances of €500,000, which were in place during 2022, remuneration during 2022 principally consisted of base salary, allowances and pension contributions. Allowances consisted of non-pensionable cash allowances of up to €30,000, subject to salary and allowances remaining within the current €500,000 cap, while employer pension contributions of 20% of base salary were payable to Executive Directors and ExCo members.

Following a review of compliance with the Code, the pension arrangements of Executive Directors and ExCo members were considered by the Committee and deemed to be appropriate, and in line with the remuneration restrictions in place during 2022. This is an area that will be kept under review.

The Chief Executive Officer and the Chief Financial Officer were Executive Directors of the Group during 2022. In line with the cap on salaries and allowances imposed by existing remuneration restrictions during 2022, the Chief Executive Officer was paid a base salary of €500,000 together with an employer pension contribution of 20% (€100,000) to a defined contribution scheme.

The Chief Financial Officer received a base salary of €485,000, with a non-pensionable allowance of €15,000 and an employer pension contribution of 20% (€97,000) to a defined contribution scheme.

There were no bonuses, shares or other incentive schemes paid or awarded to Executive Directors or ExCo members in 2022. The Committee undertakes a periodic review of the remuneration of Executive Directors and ExCo members against external benchmark data.

Remuneration Elements

The principal remuneration design elements are outlined below:

Pay Element	Rationale and alignment to Strategy	Design and Operation	Performance Assessment and Maximum Potential Value
Base Salary	To attract, motivate and retain the right calibre of individuals to support the Group's future success and growth.	Base salary is set according to appropriate salary ranges which reflect the size, skills and level of responsibilities attaching to each role. Base salaries are typically reviewed annually as part of the annual pay review process with increases taking effect from 1 April. Base salaries of Executive Directors and members of the ExCo are reviewed by the Committee on behalf of the Board.	Increases in base salary are typically performance based, determined by performance against objectives which reflect the Group's strategy, goals and values and typically occur as part of the annual pay review process. Increases may also arise through progression and promotion and, in exceptional cases, through out of-course increases to retain key talent and skills. Base salaries of all employees (excluding Goodbody employees), including Executive Directors, are managed in accordance with continuing remuneration restrictions. The annual base salary for each Executive Director is set out in the Directors Remuneration Report. In the event of the removal of the salary cap, AIB would consider the impact of this, including the introduction of shareholding requirements as recommended under the Code.
Allowances	To provide a contribution to market aligned benefits and allowances generally available in the market.	Non-pensionable cash allowances are provided to eligible employees according to their career level.	Non-pensionable allowances for senior career levels range from €10,000 to €20,000 per annum (£8,300 to £11,000 in the UK). Allowances of up to €30,000 per annum (£14,000 in the UK) are payable to ExCo members.
Short Term Incentive Plans	The introduction of variable remuneration will help support the performance culture within the Group. All variable remuneration arrangements will be designed in a way that promotes the interests of our stakeholders and fully complies with applicable regulatory requirements.	Variable remuneration schemes for all employees based on company performance.	A limit of €20,000 per annum on any award or combination of awards per employee will apply. For Executive Directors, awards will be based on a performance period of one financial year. Awards will be assessed on a combination of financial and non-financial performance. Awards will be payable in a combination of cash and shares. AIB will ensure that the form of awards will comply with regulatory obligations around the nature and form of payments under the plan. It will be possible to reduce the level of the award to reflect risk adjustments. Awards will be subject to the Group's policy on malus and clawback (where applicable), including where participants leave the Group during the year. AIB will aim to establish vehicles such as an APSS in the Republic of Ireland and a SIP in the UK.
Pension	To enable employees plan for an appropriate standard of living in retirement.	Employees are entitled to participate in one of the Group's defined contribution schemes with a monthly contribution based on a percentage of base salary. Executive Directors and ExCo members are also entitled to participate in one of the Group's defined contribution schemes. In the UK, employees may elect to receive cash in lieu of their pension contribution.	A standard contribution of 10% of base salary is made plus an additional matching contribution of up to 8%, which can be availed of depending on the age of the employee. Executive Directors and ExCo members are entitled to an employer pension contribution of 20% of base salary.
Other Benefits	To provide affordable benefits in accordance with general market practice.	Benefits include medical insurance, income protection, death-in-service cover and free banking services. Relocation costs, including tax advice, accommodation and flight allowances, may be provided in line with market practice. The Committee retains the right to provide additional benefits subject to continuing remuneration restrictions. AIB is also considering the introduction of an SAYE (Save As You Earn) scheme for employees.	A functional car policy is in place based on role requirements. The Group does not provide company cars outside of the functional car policy. Executive Directors and ExCo members may occasionally avail of a pool car and driver.

Directors' remuneration*

The following table details the total remuneration of the Directors in office during 2022 and 2021:

					2022					2021
	Directors' fees (1)	Salary	Pension contri-bution(2)	Annual taxable benefits(3)	Total	Directors' fees (1)	Salary	Pension contri-bution(2)	Annual taxable benefits(3)	Total
Remuneration	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Executive Directors										
Colin Hunt		500	100	—	600		500	100	—	600
Donal Galvin		485	97	15	597		283	56	13	352
(Appointed 28 May 2021)										
		985	197	15	1,197		783	156	13	952
Non-Executive Directors										
Anik Chaumartin	75				75	38				38
Basil Geoghegan	75				75	81				81
Tanya Horgan	80				80	22				22
Sandy Kinney Pritchard	95				95	95				95
Elaine McLean	85				85	85				85
Andy Maguire	80				80	64				64
Brendan McDonagh	135				135	218				218
(Deputy Chair)										
Helen Normoyle	165				165	115				115
Ann O'Brien	91				91	95				95
Fergal O'Dwyer	115				115	71				71
Jim Pettigrew	365				365	63				63
(Chair)										
Jan Sijbrand	78				78	22				22
Raj Singh	80				80	80				80
	1,519				1,519	1,049				1,049
Former Directors										
Carolan Lennon	53				53	109				109
(Resigned 30 June 2022)										
Anne Maher(4)					16					17
Tomás O'Midheach							59	8		67
Total	1,507				2,785	1,158				2,194

(1) All Non-Executive Directors were paid a basic, non-pensionable fee in respect of service as a Director of €65,000 and additional non-pensionable remuneration in respect of other responsibilities, such as through the chairmanship or membership of Board Committees or performing the role of Deputy Chair or Senior Independent Director. Current or former Directors who serve on the board of any Group Irish subsidiary company are also paid a non-pensionable flat fee for their services as a Director, chairmanship or membership of Board Committees. In that regard, Mr. Fergal O' Dwyer earned fees during 2022 of €55k in his role as Director and Chair of the Audit Committee of Goodbody. Current or former Non-Executive Directors of AIB Group plc and Allied Irish Banks, p.l.c., as applicable, who also serve as Directors of AIB Group (UK) p.l.c. ("AIB UK") are separately paid a non-pensionable flat fee, which is independently agreed and paid by AIB UK, in respect of their service as a Director of that company. In that regard, Ms Helen Normoyle earned fees during 2022 of €65k (2021: €30k);

(2)"Pension Contribution" represents agreed payments to a defined contribution scheme to provide post-retirement pension benefits for Executive Directors from normal retirement date. The fees of the Chair, Deputy Chair and Non-Executive Directors are non-pensionable;

(3)"Annual Taxable Benefit" represents a non-pensionable cash allowance in lieu of company car, medical insurance and other contractual benefits; and

(4) Ms Anne Maher is a former Non-Executive Director of Allied Irish Banks, p.l.c. who has, since her resignation, continued as a Director of the Corporate Trustee of the AIB Irish Pension Scheme and of the AIB Defined Contribution Scheme, in respect of which she earned fees as quoted, during 2022.

*Forms an integral part of the audited financial statements

Directors' remuneration* *continued*

Interests in shares
The beneficial interests of the Directors and the Company Secretary in office at 31 December 2022, and of their spouses and minor children, in the Company's ordinary shares are set out in the Directors' Report on page 123.

Share options
No share options were granted or exercised during 2022, and there were no options to subscribe for ordinary shares outstanding in favour of the Executive Directors or Company Secretary at 31 December 2022.

Performance shares
There were no conditional grants of awards of ordinary shares outstanding to Executive Directors or the Company Secretary at 31 December 2022.

Apart from the interests set out in the Directors' Report on page 123, the Directors and Company Secretary in office at 31 December 2022 and their spouses and minor children, have no other interests in the shares of the Company.

The year end closing price of the Company's ordinary shares on the Main Market of the Euronext Dublin Stock Exchange was € 3.616 per share.

Service contracts
All Executive Directors have a service contract whereas all Non-Executive Directors have a letter of appointment.

In respect of Executive Directors, no service contract exists between the Company and any Director which provides for a notice period from the Group of greater than one year.

Non-Executive Directors are appointed for an initial term of three years. Terms of office for Non-Executive Directors will not be extended beyond nine years in total unless the Board, on the recommendation of the Nomination and Corporate Governance Committee, concludes that such extension is necessary and appropriate.

All Directors, should they choose to stand, are subject to annual re-election by shareholders.

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*Forms an integral part of the audited financial statements

TECHNOLOGY AND DATA ADVISORY COMMITTEE

Ann O’Brien
Committee Chair

> “The Committee has overseen the development of the Technology Strategy to ensure the resilience and simplification of the Group's technology for our customers and our people and this will continue to be an area of focus during 2023.”

Q&A

Q. We have heard a lot about the pace at which AIB is delivering on its strategic priorities. As part of this what key technology deliverables has the Committee observed over the past 12 months?

A. The Committee has overseen the progress of work to ensure the resilience and simplification of AIB’s technology as well as the leveraging of data and digital capabilities to drive efficiency and enhance the customer experience. AIB’s move to technology enabled change through our Agile model during 2022 is central to delivering our key strategic priorities in a simple and efficient way.

Q. What do you see as the emerging themes for the Committee in 2023?

A. Key themes for the Committee will include oversight of the continued development of our digital capability, ensuring the resilience and simplification of our technology for both our customers and our people, supported by our new Agile model of technology enabled change. Other areas of focus will include cloud technology adoption as AIB builds its foundations in the public cloud as well as cyber incident planning and training.

Chair Overview

On behalf of the Technology and Data Advisory Committee (‘the Committee’), I am pleased to report on the Committee’s activities during the financial year ended 31 December 2022 and provide an overview of the workings of, and key matters considered by, the Committee during the course of 2022.

The Technology and Data Advisory Committee, which celebrated its second anniversary in September 2022, continues to mature its oversight and advisory responsibilities as they relate to the Group Technology Strategy in the areas of Cyber, Data, Digital, Operating Model and Sustainment & Simplification. In particular, the Committee reviews and challenges the strategy, governance and execution of matters relating to technology and data, including cyber security and business systems resilience.

The Committee currently consists of four Non-Executive Directors and two members of senior management, the Chief Technology Officer and the Chief Operating Officer, who are both members of the Executive Committee. During 2022, Mr CJ Berry resigned from the Committee and took up a new role in AIB as Chief Enterprise Development Officer and subsequently Mr Andrew McFarlane, joined the Committee in September 2022 in his role as Chief Operating Officer.

Technology & Data Advisory Committee		Eligible to attend	Attended
CJ Berry	Chief Enterprise Development Officer	2	2
Fergal Coburn	Chief Technology Officer	5	5
Andy Maguire	Non-Executive Director	5	5
Helen Normoyle	Non-Executive Director	5	4
Ann O’Brien	Non-Executive Director – Chair	5	5
Tanya Horgan	Non-Executive Director	5	5
Andrew McFarlane	Chief Operating Officer	3	3

The Chair of the AIB UK Technology & Operational Resilience Advisory Committee, the Chief Risk Officer, Group Head of Internal Audit, the Data Protection Officer and the Head of Technology Strategy and Transformation also attend the meetings of the Committee.

2022 Highlights

During 2022, the Committee considered and challenged a number of key areas including:

- Technology & Data Strategy to support the delivery of the Group Strategy, including a focus on simplification around the delivery of digital offerings for our customers and our people and the Technology Transformation and Technology vision.
- Technology & Data Operating Effectiveness including embedding a robust cyber security strategy and oversight of AIB’s readiness for the implementation of requirements under the Digital Operational Resilience Act.
- Technology & Data Governance including agile transformation and consolidation of technology services as well as our target workforce model and partner scale programme.
- Strategic & Commercial Opportunities and developing our thought leadership in strategic areas of focus including Cyber Literacy, Digital Currencies, non-bank competitors investment themes and the emerging regulatory landscape.

Looking ahead to 2023

Into 2023, our strategic priorities will be to continue to embed and integrate technology strategy across the Group with a key focus on how our approach to workforce architecture and technology infrastructure will best enable us deliver for our customers and our employees.

I would like to take this opportunity to thank Mr Berry for his valued contribution to the Committee and welcome Mr McFarlane who we look forward to working with in 2023. I would also like to thank my fellow Committee Members and the wider Technology and Data Teams for their continued commitment in what has been a busy and positive year for the Committee.

Ann O’Brien
Committee Chair

REPORT OF THE SUSTAINABLE BUSINESS ADVISORY COMMITTEE

Helen Normoyle
Committee Chair

> "One of the main highlights of 2022 was the execution of the Corporate Power Purchase Agreement, which will source energy from two solar farms to be constructed in County Wexford, which will result in up to 80% of the Group's electricity needs being met."

Q&A

Q. AIB has set very ambitious Strategic Sustainability targets and has positioned itself as a champion of the sustainability agenda in Irish financial services. What do you see as AIB's greatest achievement in this space in the past 12 months?

A. AIB continues to make great strides to meet key targets across the Climate & Environment, Economic & Social Inclusion and Future Proof Business focus areas. To my mind, one of the main highlights of 2022 was the execution of the Corporate Power Purchase Agreement with NTR plc which will source solar energy from two solar farms to be constructed in County Wexford. AIB is the first Irish company to conclude such an agreement, and as a result up to 80% of AIB Group's electricity needs will be met, while also providing additional generation capacity into the national grid.

Q. What do you see as the key emerging themes for the Committee in 2023?

A. We have established strong ESG (Environmental, Social & Governance) credentials. To date, our deliberate focus has been on building our leadership position in the Environmental space in terms of climate action and we have made great strides in the Social and Governance areas. Over the course of 2023 we will maintain and build on our leadership position and heighten our focus in the Social and Governance areas to reinforce our social impact and demonstrate how we can support the aspiration for a fairer society that is socially and economically inclusive.

Chair Overview

On behalf of the Sustainable Business Advisory Committee (the 'Committee'), I am pleased to report on the Committee's activities during the financial year ended 31 December 2022 and provide an insight into the workings of, and key matters considered by, the Committee during the course of 2022.

The Committee oversees the Group's performance as a sustainable business and its delivery of AIB's sustainability strategy (the "Strategy"). More specifically, the Committee supports the execution of the Group's sustainable business strategy in accordance with the approved Group Strategic and Financial Plan; it considers and advises the Board on the three pillars of Climate & Environment, Economic & Social Inclusion and Future Proof Business; and it provides oversight of the external reporting of the Strategy.

As at the end of December 2022, the Committee membership consisted of three Non-Executive Directors, one Executive Director – the Chief Executive Officer – and three other members of senior management, two of whom are also Executive Committee members.

The Chief Risk Officer is invited to attend all meetings of the Committee. During 2022, there were a number of changes to Committee membership. Ms Ann O'Brien stepped down from the Committee in March 2022 and Ms Carolan Lennon resigned as a Director of the Group in June 2022. Mr Jan Sijbrand joined the Committee in September 2022 and Ms Anik Chaumartin also joined the Committee effective 1 January 2023.

Recognising the importance of strong oversight and governance of our ESG agenda, and to ensure co-ordination with the work of our colleagues on the Board Audit Committee ("BAC") and Board Risk Committee ("BRC"), cross membership of these Committees is in place. Ms Anik Chaumartin is also a BAC member and Mr Jan Sijbrand and Mr Raj Singh are also members of the BRC.

Sustainable Business Advisory Committee		Eligible to attend	Attended
Geraldine Casey	Chief People Officer	4	4
Colin Hunt	Chief Executive Officer	6	6
Helen Normoyle	Non-Executive Director – Chair	6	6
Carolan Lennon	Non-Executive Director	4	3
Ann O'Brien	Non-Executive Director	3	3
Raj Singh	Non-Executive Director	6	5
Jan Sijbrand	Non-Executive Director	2	2
Paul Travers	Head of Energy, Climate Action and Infrastructure	6	6
Mary Whitelaw	Chief Sustainability and Corporate Affairs Officer	3	3

2022 Highlights

During 2022, the Committee considered and challenged a number of key areas including the:

- Group's Sustainability Strategy and Targets
- Materiality Exercise
- Development of the Social Agenda including Human Rights
- Financed Emissions Targets for sectoral portfolios and ESG Ratings criteria
- Delivering ESG Customer Propositions in AIB UK, Capital Markets and Retail Banking and SME Customer Supports through information and education
- Development of a Group ESG Framework
- Supplier Risk Management
- Regulatory expectations and requirements on Climate Risk
- AIB's environmental footprint
- Sustainability disclosures in the Group's annual reporting and the disclosures roadmap for the year ahead including regulatory engagement.

The Committee also held a number of thought leadership events during the year with renowned speakers in the area of Sustainability including Dr. Cara Augustenborg and Professor Dr. Ottmar Edenhofer to gain external insights and perspectives to help shape and inform the work of the Committee.

The Committee acknowledged the progress of AIB's Community Programme, and in particular our collaboration with Community Partners and the support provided through the Community Fund. AIB hosted a Community Partner event in September which was a humbling and rewarding experience and it was great to hear first-hand about the impact the work our Partners have in our wider community. Another notable highlight of 2022 was the first hybrid hosting of AIB's annual Sustainability Conference. The success of the event builds year on year and the Committee looks forward to what 2023 holds in store.

Looking ahead to 2023

Over the course of 2023, our priority will be to continue to support the delivery of the Sustainability Strategy by embedding our ESG Framework. This will provide a solid foundation for the approach to governance and risk management of ESG activity and the further embedding and integration of ESG across the business. The Committee will also continue to focus on delivering for our customers by providing guidance around the creation of new opportunities or the leveraging of existing ones to support customers on their sustainability journey.

I would like to take this opportunity to thank both Ann and Carolan for their significant contribution to the Committee during their membership and I am looking forward to working with Anik and Jan in the year ahead. I would also like to take this opportunity to thank my fellow Committee Members and wider Sustainability Team for their unwavering commitment to this evolving area over what has been another challenging and rewarding year.

Helen Normoyle
Committee Chair

INTERNAL CONTROLS

Directors' Statement on risk management and internal controls
The Board of Directors is responsible for the Group's system of internal control, which is designed to manage the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The Group has implemented a framework and policy architecture covering business and financial planning, corporate governance and risk management. The system of internal controls is designed to ensure that there is thorough and regular evaluation of the Group's risks in order to react accordingly, rather than to eliminate risk. This is done through a process of identification, measurement, monitoring and reporting. This process includes an assessment of the effectiveness of internal controls, which was in place for the full year under review up to the date of approval of the financial statements, and which accords with the Central Bank of Ireland's Corporate Governance requirements for Credit Institutions 2015 and the UK Corporate Governance Code.

Supporting this process, the Group's system of internal controls is based on the following:

Board governance and oversight
- The Board has ultimate responsibility for risk appetite and reviewing the effectiveness of the system of internal control on a continuous basis and is supported by a number of sub-committees including Board Audit Committee ("BAC"), Board Risk Committee ("BRC"), Remuneration Committee, Sustainable Business Advisory Committee ("SBAC"), Technology and Data Advisory Committee ("TDAC"), and Nomination & Corporate Governance Committee.
- The BRC is appointed by the Board to assist the Board in fulfilling its oversight responsibilities. It is responsible for fostering sound risk governance across all of the Group's finances and operations (including all operations, legal entities and branches in ROI, the UK and USA) taking a forward looking perspective and anticipating changes in business conditions. The Committee discharges its responsibilities in ensuring that risks within the Group are appropriately identified, reported, assessed, managed and controlled. It ensures that the Group's overall actual and future risk appetite statement and strategy, taking into account all types of risks, are aligned with the business strategy, objectives, corporate culture and values of the institution while promoting a risk awareness culture within the Group. BRC oversees and challenges the risk management function, which is managed on a day-to-day basis by the Chief Risk Officer ("CRO"), and liaises regularly with the CRO to ensure the Risk Function is adequately resourced and has appropriate access to information to enable it to perform its functions effectively and in accordance with relevant professional standards. BRC provides qualitative and quantitative input to the Remuneration Committee on the alignment of variable remuneration to risk performance for material risk takers. The Committee further provides advice on the ongoing viability of the Group, taking into account the Group's overall position and principal risks. The committee is composed of Independent Non-Executive Directors and operates under Board approved terms of reference.
- The BAC is appointed by the Board to assist it in fulfilling its oversight responsibilities in relation to the quality and integrity of the Group's accounting policies, financial and narrative reports, and disclosure practices. The Committee also ensures the effectiveness of the Group's internal control, risk management, and accounting and financial reporting systems and the adequacy of arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. It also ensures the independence and performance of the internal and external auditors. The BAC is composed of Independent Non-Executive Directors and operates under a Board approved terms of reference.
- The Chief Financial Officer ("CFO"), the Chief Risk Officer ("CRO") and the Group Internal Auditor are involved in all meetings of the BAC and BRC, where appropriate.
- The Remuneration Committee is responsible for the design and implementation of the Group's overall Remuneration Policy for employees and directors, designed to support the long term business strategy, values and culture of the Group as well as to promote effective risk management, and reward fairly and responsibly, with a clear link to corporate and individual performance in compliance with applicable legal and regulatory requirements.
- The SBAC was established by the Board to act as an Advisory Committee, supporting the execution of the Group's sustainable business strategy in accordance with the approved Group Strategic and Financial Plan. The Strategy includes the development and safe guarding of the Group's "social licence to operate" through Environmental, Social and Governance activities, alignment with the United Nations Environmental Programme Finance Initiative ("UNEPFI") Principles for Responsible Banking, UN Global Compact and the Group's Pledge to Do More.
- The TDAC is appointed by the Board to assist in fulfilling its oversight responsibilities by reviewing and challenging the strategy, governance and execution of matters relating to technology, data and cyber security.
- The Nomination and Corporate Governance Committee's responsibilities include, amongst others, supporting and advising the Board in fulfilling its oversight responsibilities in relation to the composition of the Board by ensuring it is comprised of individuals who are best able to discharge the duties and responsibilities of Directors, to include leading the process for nominations and appointments to the Board and Board Committees as appropriate, and making the recommendations in this regard to the Board for its approval. It also supports and advises the Board in fulfilling its oversight responsibilities in relation to the composition of the Group's Executive Committee and the composition of the Boards of its material subsidiaries. It keeps Board governance arrangements, corporate governance compliance and related policies under review and makes appropriate recommendations to the Board to ensure corporate governance practices are consistent with best practice standards.

Executive Risk management and controls

- The Executive Committee (“ExCo”) is the most senior executive committee of the Group. Subject to financial and risk limits set by the Board, and excluding those matters which are reserved specifically for the Board, the ExCo has primary authority and responsibility for the day-to-day operations of, and the development of strategy for the Group. The ExCo works with and advises the CEO, ensuring a collaborative approach to decision making and collective ownership of strategy development and implementation, including promoting action to address performance issues as required.
- The Group Risk Committee (“GRC”) was established by, and is accountable to, the ExCo to set policy and monitor all risk types across the Group and to enable delivery of the Group’s risk strategy. It is the primary second line of defence risk management committee of the Group. It provides oversight and monitors strategic business initiatives that have material implications for the Group to ensure they align and are consistent with the Group risk appetite and other risk policies as approved by the BRC.
- The Group Asset and Liability Committee (“ALCo”) is a sub-committee of the ExCo and acts as the Group’s strategic and business decision making forum for balance sheet management matters. It sets policy and is responsible for effective balance sheet management and alignment to Group strategy for funding and liquidity risk, market risk and capital adequacy risk.
- There is a centralised risk control function headed by the CRO, who is responsible for independent challenge, ensuring that risks are understood, managed, measured, monitored and reported on, and for reporting on risk mitigation actions.
- The Risk function is responsible for establishing and embedding risk management frameworks, ensuring that material risk policies are reviewed, and reporting on adherence to risk limits as set by the Board of Directors.
- The Group’s risk profile is measured against its risk appetite and exceptions are reported to the GRC and BRC through the CRO report. Material breaches of risk appetite are escalated to the Board and reported to the Central Bank of Ireland/Joint Supervisory Team (“JST”).
- The centralised credit function is headed by a Chief Credit Officer who reports to the CRO.
- Compliance, which is part of the Risk function, provides interpretation and assessment of compliance risk, specifically, laws, regulations, rules and codes of conduct applicable to its banking activities.
- There is an independent Group Internal Audit function which is responsible for independently assessing the effectiveness of the Group’s corporate governance, risk management and internal controls and reports directly to the Chair of the BAC.
- AIB employees who perform pre-approved controlled functions/controlled functions meet the required standards as outlined in the Group’s Fitness and Probity programme.

For further information on the risk management framework of the Group, see pages 130 to 133 of this report.

In the event that material failings or weaknesses in the systems of risk management or internal control are identified, Management is required to attend the relevant Board forum to provide an explanation of the issue and to present a proposed remediation plan. Agreed remediation plans are tracked to conclusion, with regular status updates provided to the relevant Board forum.

Given the work of the Board, BRC, BAC and representations made by the ExCo during the year, the Board is satisfied that the necessary actions to address any material failings or weaknesses identified through the operation of the Group’s risk management and internal control framework have been taken, or are currently being undertaken.

Taking this and all other information into consideration as outlined above, the Board is satisfied that there has been an effective system of control in place throughout the year.

VIABILITY STATEMENT

In accordance with provision 31 of the UK Corporate Governance Code published in July 2018, the Directors have assessed the viability of the Group taking into account its current position, the prevailing economic and trading conditions and principal risks facing the Group over the next three years to the end of 2025.

Horizon period

The Directors concluded that three years was an appropriate period to assess the viability of the Group for the following reasons:

- It is the same period used within the Group for strategic and financial planning process;
- The Group prepares its annual Internal Capital Adequacy Assessment (ICAAP) and Internal Liquidity Adequacy Assessment (ILAAP) on an annual basis using a three year time horizon;
- A three year time horizon is used for both internal and regulatory stress testing. Where certain impacts can be assessed reliably beyond the 3 year forecast horizon, a quantification is performed (for example the ECB Prudential provisioning backstop for non-performing exposures) and considered; and
- A three year time horizon is consistent with the internal risk management practices within the Group, including but not limited to: setting of the Risk Appetite, the Material Risk Assessment as well as Recovery and Resolution planning.

Considerations in assessing viability of the Group

Assessment of prospects

The assessment of the Group's prospects is built up based on the current financial position of the Group including its liquidity and funding and capital position. The Group's regulatory capital has increased on a fully loaded basis by €286 million from year end 2021 driven by profit in the year and transitional capital has decreased by €160 million due to the additional years phasing of the transitional adjustments. The Group's transitional total capital ratio of 22.6% is comfortably above regulatory requirements as set out on pages 72 to 74. The Group's LCR of 192% and NSFR of 164% demonstrate a very strong liquidity position as described on pages 145 and 156.

In 2022, AIB made significant progress towards completion of a multi-year strategic transformation programme, enabling the Group to deliver on our growth agenda

This strategy which is described on pages 18 to 25, continues to inform the Board planning process covering the period of assessment. As part of the delivery of the Group's Strategy, the Directors consider the risks facing the Group including those that would threaten the competitive position of the business, its operational capacity as well as the Group's governance and internal control systems.

Profitability and growth were reassessed in the annual planning exercise covering the period 2023 to 2025 undertaken by the Group in the second half of 2022. Profitability levels underpinning the plan have been revised upwards compared to last year given the changing banking landscape and evolving operating environment. This resulted in the Group announcing an increase in medium term RoTE target from greater than 9% to great than 13%. However, the Board remains cognisant of and monitors a number of headwinds to the credit environment, most notably inflation challenges and geopolitical risks and the potential impacts of same on the Group's Expected Credit Loss.

The Group is also working to understand and prepare to manage risks that could arise in relation to climate risk, both in terms of the transition to net zero and the physical risks from climate change.

Assessment of risks

During the year, the Directors rely on the following processes to identify and assess risks which could impact on the continued viability of the Group:

- The Group's Material Risk Assessment process seeks to ensure that all significant risks to which the Group is exposed have been identified and are being appropriately managed. New and emerging risks are also identified and mitigating actions are put in place.
- As part of the setting of the Group's risk appetite, consideration is given to the amount of risk the Group is willing to accept in pursuit of its strategic objectives.
- On a quarterly basis, internal stress testing of the Group's capital and liquidity position is performed. This is conducted using a variety of different macroeconomic scenarios.
- In recovery and resolution planning, consideration is given to market factors and the operational resiliency of the Group.
- The regular reporting of the Group's financial performance by the Chief Financial Officer and the reporting of the Group's risk profile by the Chief Risk Officer.
- The provision of independent and objective assurance of the adequacy of the design and operational effectiveness of the risk and control environment by Group Internal Audit to the Board Audit Committee.
- The Board Risk Committee oversees the Group's risk management.

A full description of the principal risks facing the Group is provided in the Risk management section – Individual risk types pages 83 to 168.

As part of the internal capital adequacy assessment process, material risks to the Group's financial performance are considered in terms of their potential impact on the Group's position. These risks are set out on page 153. Stress testing not only includes changes in macroeconomic forecasts but also other factors such as; financial crime losses, disruption to IT systems or cost of a cyber incident as well as financial loss arising from compliance or conduct issues.

Assessment of viability
The financial planning process is the main tool for assessing the continued financial prospects of the Group. The plan is a detailed three year financial forecast for each segment, and includes forecasts of operating results, headcount, investment expenditure and new strategic initiatives. Progress against the plan is reported monthly to the Executive Committee and the Board. Updated forecasts are prepared as required and mitigating management actions are taken where required.

The Board considers independent review of the plan by the Risk function covering the alignment of the plan with Group strategy and the risk appetite. This review also identifies the key risks to delivery of the Group’s plan.

The Group’s base case underpins the financial plan and reflects changes in the macroeconomic and market environment and also includes consideration of downside scenarios In 2022, the Group considered two downside scenarios; (i) prolonged War in Ukraine with a sudden stop to Russian gas exports to Europe, and a continuation of high inflation (a moderate downside), and (ii) a severe but plausible scenario which is used for internal stress testing of the Group’s capital position.The Group’s severe scenario considers not only the above but also wider economic and financial markets distress. The Group also considers the impacts of transitioning to a low-carbon economy and physical risks as part of climate risk stress testing. In addition, the Group performs regular stress testing of its liquidity position.

After assessing the Group’s prospects, risks, and reviewing the financial plan as well as the results of stress testing scenarios, the Group continues to:
- Demonstrate internal capital generation through continued profitability in each of the forecast years
- Demonstrate capacity to carry out the proposed distribution strategy to shareholders as well as buyback strategy to return the states’s investment in the Group
- Remain in excess of its regulatory capital requirements; and
- Have significant liquidity over its liquidity coverage ratio and net stable funding ratio.

Statement of viability
On the basis of the above, the Directors have a reasonable expectation, taking into account the Group’s current position, and subject to the identified risks and mitigating actions, that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period of assessment.

DIRECTORS' REPORT

for the financial year ended 31 December 2022

The Directors of AIB Group plc ('the Company') present their report and the audited financial statements for the financial year ended 31 December 2022. The Statement of Directors' Responsibilities is shown on page 210.

For the purposes of this report 'AIB Group' or 'the Group' comprises the Company and its subsidiaries in the financial year ended 31 December 2022.

Results

The Group's profit attributable to the ordinary shareholders of the Company amounted to € 767 million and was arrived at as shown in the consolidated income statement on page 223.

Dividend

The Board proposes to pay an ordinary dividend of 6.2 cent per share from 2022 profits (totalling € 166 million based on the total number of ordinary shares currently outstanding), payable on 12 May 2023. This is subject to shareholder approval at the Annual General Meeting in May 2023.

On 13 May 2022, the Company paid a final dividend for the year ended 31 December 2021 of 4.5 cent per share, totalling € 122 million, to its shareholders on the Company's Register of Members at the close of business on 1 April 2022.

Buyback of ordinary shares

At the Annual General Meeting ("AGM") the Board normally seeks, and has received, a renewal of its authority from shareholders to undertake on-market purchases of up to 10% of its ordinary shares. At the AGM on 5 May 2022, the authority of the Company to make off-market purchases of its ordinary shares from the Minister was renewed. At the 2021 AGM, approval had been sought and was received to enter into a Directed Buyback Contract (the "DBB Contract") with the Minister for Finance, the terms of which would permit the Company to make off-market purchases of shares from the Minister of up to 4.99% of the Company's issued share capital in any 12 month period, with the agreement of the Minister at that time. Any such off-market purchases would be made at the relevant market price, the calculation of which was set out in the DBB Contract. Under the DBB Contract an on-market share buyback programme undertaken in parallel with the off-market purchases from the Minister pursuant to the DBB Contract was announced on 5 May 2022, a total of 40,952,764 ordinary shares (1.51% of the Company's issued share capital) were repurchased in May 2022, for a total consideration of € 91million. The purchases had a volume weighted average price of € 2.2221 for each share (nominal value of € 0.625). A summary of transactions in own shares has been set out below, and further information is available in Note 36 Share Capital at page 310.

	Par Value	Number of Shares
	€m	000s
At 1 January 2022	1,696	2,714,381
Share buybacks*	(25)	(40,953)
At 31 December 2022	1,671	2,673,428

**all of the purchased shares were cancelled*

In accordance with regulatory requirements the Company is required to obtain prior approval from the ECB in order to undertake any share buybacks (including a Directed Buyback). In this context, the company has received regulatory approval from the ECB to undertake a buyback of ordinary shares in an aggregate consideration amount of up to €215 million. Discussions with the Department of Finance in relation to a potential directed buyback of ordinary shares by the Minister for Finance are currently underway. Any buyback of ordinary shares would be subject to the approvals of the Board and the Minister for Finance.

Going concern

The financial statements for the financial year ended 31 December 2022 have been prepared on a going concern basis as the Directors are satisfied, having considered the principal risks and uncertainties impacting the Group, that it has the ability to continue in business for the period of assessment. The period of assessment used by the Directors is 12 months from the date of approval of this Annual Financial Report.

In making their assessment, the Directors considered a wide range of information relating to present and future conditions. These included financial plans covering the period 2023 to 2025, liquidity and funding forecasts and capital resources projections, all of which were prepared under base and stress scenarios.

In addition, the Directors considered the principal risks and uncertainties which could materially affect the Group's future business performance and profitability and which are outlined on pages 23 to 25.

Directors' Compliance Statement

As required by section 225(2) of the Companies Act 2014, the Directors acknowledge that they are responsible for securing the Company's compliance with its relevant obligations (as defined in section 225(1) and section 1374). The Directors confirm that:

a. a compliance policy statement (as defined in section 225(3)(a)) has been drawn up that sets out the Company's policies and, in the Directors' opinion, is appropriate to ensure compliance with the Company's relevant obligations;

b. appropriate arrangements or structures that are, in the Directors' opinion, designed to secure material compliance with the relevant obligations have been put in place; and

c. a review of those arrangements or structures has been conducted in the financial year to which this report relates.

Capital

Information on the structure of the Company's share capital, including the rights and obligations attaching to shares, is set out in the Schedule on pages 125 to 127 and is part of note 36 to the consolidated financial statements.

Accounting policies

The principal accounting policies, together with the basis on which the financial statements have been prepared, are set out in note 1 to the consolidated financial statements.

Review of principal activities

The statement by the Chair on pages 6 and 7, the review by the Chief Executive Officer on pages 8 to 11, and the operating and financial review on pages 55 to 70 contain an overview of the development of the business of the Group during the year, of recent events, and of likely future developments.

Directors

At 31 December 2022, the Board of Directors of the Company was comprised of Mr Jim Pettigrew, Ms Anik Chaumartin, Mr Donal Galvin, Mr Basil Geoghegan, Ms Tanya Horgan, Dr Colin Hunt, Ms Sandy Kinney Pritchard, Ms Elaine MacLean, Mr Andy Maguire, Mr Brendan McDonagh, Ms Helen Normoyle, Ms Ann O'Brien, Mr Fergal O'Dwyer, Mr Jan Sijbrand and Mr Raj Singh.

Since the last Directors' Report was issued, the following Board changes occurred with effect from the dates shown:

- Ms Carolan Lennon resigned as Independent Non-Executive Director of the Board on 30 June 2022.
- Helen Normoyle was appointed Senior Independent Non-Executive Director on 1 July 2022 taking over this responsibility from Ms Lennon. Ms Normoyle has served as an Independent Non-Executive Director since December 2015.

Biographical details of all Directors are provided on pages 78 to 81.

The appointment and replacement of Directors, and their powers, are governed by law and the Constitution of the Company, and information on these is set out in the Schedule on page 126.

Directors' and Secretary's Interests in Shares

The beneficial interests of the Directors and the Company Secretary in office at 31 December 2022, and of their spouses and minor children, in the Company's ordinary shares as disclosed to the Company are as follows:

Ordinary shares	31 December 2022	1 January 2022*
Directors:		
Anik Chaumartin	—	—
Donal Galvin	—	—
Basil Geoghegan	9,835	9,835
Tanya Horgan	—	—
Colin Hunt	60,000	40,000
Sandy Kinney Pritchard	10,000	10,000
Elaine MacLean	—	—
Andy Maguire	—	—
Brendan McDonagh	20,000	20,000
Helen Normoyle	2,000	2,000
Ann O'Brien	—	—
Fergal O'Dwyer	10,000	10,000
Jim Pettigrew	25,000	—
Jan Sijbrand	—	—
Raj Singh	—	—
Company Secretary:		
Conor Gouldson	50,210	15,210

* Or date of appointment if later.

There is no requirement for Directors, or the Company Secretary, to hold shares in the Company.

There were no changes in the interests of the Directors and the Company Secretary shown above between 31 December 2022 and 7 March 2023.

Directors' Remuneration

The Group's policy with respect to Directors' remuneration is included in the Corporate Governance Remuneration Statement on pages 109 to 114. Details of the total remuneration of the Directors in office during 2022 and 2021 are shown in the Corporate Governance Remuneration Statement on page 113.

Non-Financial Statement

Regulations on non-financial information, which were transposed into Irish law by the European Union (disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 as amended by Statutory Instrument No. 410 of 2018, require that the Group reports on specific topics such as: environmental matters; social and employee matters; respect for human rights; and bribery and corruption ('key non-financial matters').

The Group is committed to maintaining sustainable and ethically responsible corporate and social practices in every aspect of its business. The tables included on pages 44 to 47 of the Annual Financial Report, together with the information it refers to, is intended to assist shareholders to understand the Group's position on key non-financial matters. A description of the Group's business model is included on pages 14 to 15 of the Annual Financial Report and the content on pages 23 to 25 summarises the linkage between the Group's strategic pillars, the principal risks and uncertainties, and the Group's material risks. The material risks primarily impacted by key non-financial matters include operational risk, credit risk, people and culture risk, regulatory compliance risk and conduct risk. Further details of the Group's risk management governance and organisational framework can be found on pages 130 to 133.

Substantial interests in the share capital

At 31 December 2022, the Company had been notified of the following substantial interests:

- The Minister for Finance in Ireland held 1,520,799,849 ordinary shares representing 56.89% of the total voting rights attached to the issued share capital.
- Wellington Management Group LLP held 122,399,376 ordinary shares representing 4.57% of the total voting rights attached to the issued share capital.
- Orbis Investment Management Limited held 80,318,368 ordinary shares representing 3.004% of the total voting rights attached to the issued share capital.

In December 2021, the Irish Minister for Finance announced the planned sell down of a part of the State's shareholding in the Company through a pre-arranged trading plan. This has resulted in the reduction of the State's shareholding from 71.12% at the start of the year 2022 to 55.93% at 7 March 2023.

The following interests were disclosed to the Company in accordance with the Market Abuse Regulation and Part 5 of the Transparency Regulations and the related transparency rules during the period from 31 December 2022 to 7 March 2023:

- Minister for Finance/NTMA held 1,495,196,966 ordinary shares representing 55.93% of the total voting rights attached to the issued share capital.
- Massachusetts Financial Services Company held 81,091,211 ordinary shares representing 3.03% of the total voting rights attached to the issued share capital.
- Orbis Investment Management Limited held 79,652,834 ordinary shares representing 2.979% of the total voting rights attached to the issued share capital.
- Wellington Management Group LLP held 106,404,494 ordinary shares representing 3.98% of the total voting rights attached to the issued share capital.

Corporate governance

The Directors' Corporate Governance report is set out on pages 84 to 92 and forms part of this report. Additional information, disclosed in accordance with the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006, is included in the Schedule to the Directors' Report on pages 125 to 126.

In accordance with Section 1097 and 1551 of the Companies Act 2014, the Directors confirm that a Board Audit Committee is established. Details on the Board Audit Committee's membership and activities are shown on pages 95 to 100.

Political donations

The Directors of the Company have satisfied themselves that there were no political contributions that require disclosure under the Electoral Act 1997.

Accounting records

The measures taken by the Directors to secure compliance with the Company's obligation to keep adequate accounting records include the use of appropriate systems and procedures, incorporating those set out within "Internal control" in the Corporate Governance report on pages 118 and 119, and the employment of competent persons. The accounting records are kept at the Company's Registered Office at 10 Molesworth Street, Dublin 2, Ireland and at the principal addresses outlined on page 361.

Principal risks and uncertainties

Information concerning the principal risks and uncertainties facing the Group, as required under the terms of the European Accounts Modernisation Directive (2003/51/EEC) (implemented in Ireland by the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005), is set out on pages 23 to 26.

Branches outside the State

The Company has not established any branches since incorporation. However, the Company's principal operating subsidiary, Allied Irish Banks, p.l.c., had established branches in the United Kingdom and the United States of America.

Auditor

Deloitte Ireland LLP ("Deloitte") were appointed as the Group's auditor on 20 June 2013 following shareholder approval at the 2013 Annual General Meeting ("AGM") on that date. Their continued appointment as Auditor of the Company was approved at the last AGM held on 5 May 2022 and they shall continue to hold office until the conclusion of the AGM of the Company on 4 May 2023, pursuant to section 383(2) of the Companies Act 2014.

A formal external audit tender process was completed by the Audit Committee on behalf of the Board in 2021 and PricewaterhouseCoopers ("PwC") have been selected by the Board as the proposed new Statutory Auditor in respect of the financial year ending 31 December 2023. A shareholder resolution at the AGM to be held on 4 May 2023 is required for the appointment of the new Statutory Auditor and the Board is recommending that PwC be appointed.

Subject to shareholder approval of PwC as the Group's new Statutory Auditor, Deloitte, having served as the Group's Statutory Auditor for the maximum legally permitted unbroken tenure in office of 10 years, intend to resign upon conclusion of the 2022 financial year end process, at the AGM of the Company on 4 May 2023. Deloitte have confirmed, in accordance with Section 400 of the Companies Act, that there are no circumstances connected with their resignation which should be brought to the attention of the Members or Creditors of the Company.

Statement of relevant audit information

Each of the persons who is a Director at the date of approval of this report confirms that:

a. so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
b. the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 330 of the Companies Act 2014.

Other information

Other information relevant to the Directors' Report may be found in the following pages of the report:

	Page
2022 Results – Financial Performance	4
Risk management	129
Non-adjusting events after the reporting period	343

Jim Pettigrew
Chair

Colin Hunt
Chief Executive Officer

7 March 2023

SCHEDULE TO THE DIRECTORS' REPORT

for the financial year ended 31 December 2022

Additional information required to be contained in the Directors' Annual Report by the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006.
As required by these Regulations, the information contained below represents the position of the Company as at 31 December 2022.

Capital structure

The authorised share capital of the Company is € 2,500,000,000 divided into 4,000,000,000 ordinary shares of € 0.625 each ("Ordinary Shares"). The issued share capital of the Company is 2,673,428,473 Ordinary Shares of € 0.625 each.

Rights and obligations of each class of share

The following rights attach to Ordinary Shares:

- the right to receive duly declared dividends, in cash or, where offered by the Directors, by allotment of additional Ordinary Shares;
- the right to attend and speak, in person or by proxy, at general meetings of the Company;
- the right to vote, in person or by proxy, at general meetings of the Company having, in a vote taken by a show of hands, one vote, and, on a poll, a vote for each Ordinary Share held;
- the right to appoint a proxy, in the required form, to attend and/or vote at general meetings of the Company;
- the right to receive, (by post or electronically), at least 21 days before the Annual General Meeting, a copy of the Directors' and Auditor's reports accompanied by copies of the balance sheet, profit and loss account and other documents required by the Companies Act to be annexed to the balance sheet or such summary financial statements as may be permitted by the Companies Act;
- the right to receive notice of general meetings of the Company; and
- in a winding-up of the Company, and subject to payments of amounts due to creditors and to holders of shares ranking in priority to the Ordinary Shares, repayment of the capital paid up on the Ordinary Shares and a proportionate part of any surplus from the realisation of the assets of the Company.

There is, attached to the Ordinary Shares, an obligation for the holder, when served with a notice from the Directors requiring the holder to do so, to inform the Company in writing within not more than 14 days after service of such notice, of the capacity in which the shareholder holds any share of the Company and, if such shareholder holds any share other than as beneficial owner, to furnish in writing, so far as it is within the shareholder's knowledge, the name and address of the person on whose behalf the shareholder holds such share or, if the name or address of such person is not forthcoming, such particulars as will enable or assist in the identification of such person, and the nature of the interest of such person in such share. Where the shareholder served with such notice (or any person named or identified by a shareholder on foot of such notice) fails to furnish the Company with the information required within the time period specified, the shareholder shall not be entitled to attend meetings of the Company, nor to exercise the voting rights attached to such share, and, if the shareholder holds 0.25% or more of the issued Ordinary Shares, the Directors will be entitled to withhold payment of any dividend payable on such shares, and the shareholder will not be entitled to transfer such shares except by sale through a Stock Exchange to a bona fide unconnected third party. Such sanctions will cease to apply after not more than seven days from the earlier of receipt by the Company of notice that the member has sold the shares to an unconnected third party or due compliance, to the satisfaction of the Company, with the notice served as provided for above.

Restrictions on the transfer of shares

Save as set out below, there are no limitations in Irish law or in the Company's Constitution on the holding of Ordinary Shares, and there is no requirement to obtain the approval of the Company, or of other holders of Ordinary Shares, for a transfer of Ordinary Shares.

The Ordinary Shares are, in general, freely transferable, but the Directors may decline to register a transfer of Ordinary Shares upon notice to the transferee, within two months after the lodgement of a transfer with the Company, in the following cases:
i. a lien held by the Company on the shares;
ii. a purported transfer to an infant or a person lawfully declared to be incapable for the time being of dealing with their affairs; or
iii. a single transfer of shares which is in favour of more than four persons jointly.

Ordinary Shares held in certificated form are transferable upon production to the Company's Registrars of the original share certificate and the usual form of stock transfer duly executed by the holder of the shares.

Shares held in uncertificated form are transferable in accordance with the rules or conditions imposed by the operator of the relevant system that enables title to the Ordinary Shares to be evidenced and transferred without a written instrument, and in accordance with the Companies Act 2014.

The rights attaching to Ordinary Shares remain with the transferor until the name of the transferee has been entered on the Register of Members of the Company.

Exercise of rights of shares in Employee share schemes

The AIB Approved Employee Profit Sharing Scheme 1998 and the Allied Irish Banks, p.l.c. Share Ownership Plan (UK) provide that voting rights in respect of shares held in trust for employees who are participants in those schemes are, on a poll, to be exercised only in accordance with any directions in writing by the employees concerned to the Trustees of the relevant scheme. Following the establishment of the Company, the shares previously held in trust in Allied Irish Banks, p.l.c. were exchanged, on a one-for-one basis, for new shares in the Company.

Deadlines for exercising voting rights

Voting rights at general meetings of the Company are exercised when the Chair puts the resolution at issue to a vote of the meeting. A vote decided by a show of hands is taken forthwith. A vote taken on a poll for the election of the Chair or on a question of adjournment is also taken forthwith, and a poll on any other question is taken either immediately or at such time (not being more than 30 days from the date of the meeting at which the poll was demanded or directed) as the Chair of the meeting directs. Where a person is appointed to vote for a shareholder as proxy, the instrument of appointment must be received by the Company not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the appointed proxy proposes to vote, or, in the case of a poll, not less than 48 hours before the time appointed for taking the poll.

Rules concerning amendment of the Company's Constitution

As provided in the Companies Act 2014, the Company may, by special resolution, alter or add to its Constitution. A resolution is a special resolution when it has been passed by not less than three-fourths of the votes cast by shareholders entitled to vote and voting in person or by proxy, at a general meeting at which not less than 21 clear days' notice specifying the intention to propose the resolution as a special resolution, has been duly given. A resolution may also be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given if it is so agreed by a majority in number of the members having the right to attend and vote at any such meeting, being a majority together holding not less than 90% in nominal value of the shares giving that right.

Rules concerning the appointment and replacement of Directors of the Company

- Other than in the case of a casual vacancy, Directors are appointed on a resolution of the shareholders at a general meeting, usually the Annual General Meeting.
- No person, other than a Director retiring at a general meeting is eligible for appointment as a Director without a recommendation by the Directors for that person's appointment unless, not less than 42 days before the date of the general meeting, written notice by a shareholder duly qualified to be present and vote at the meeting of the intention to propose the person for appointment, and notice in writing signed by the person to be proposed of willingness to act, if so appointed, have been given to the Company.
- A shareholder may not propose himself or herself for appointment as a Director.
- The Directors have the power to fill a casual vacancy or to appoint an additional Director (within the maximum number of Directors fixed by the Company in a general meeting), and any Director so appointed holds office only until the conclusion of the next Annual General Meeting following his/her appointment, when the Director concerned shall retire, but shall be eligible for reappointment at that meeting.
- One-third of the Directors for the time being (or, if their number is not three or a multiple of three, not less than one-third) are obliged to retire from office at each Annual General Meeting on the basis of the Directors who have been longest in office since their last appointment. While not obliged to do so, the Directors have, in recent years, adopted the practice of all (those wishing to continue in office) offering themselves for re-election at the Annual General Meeting.
- A person is disqualified from being a Director, and their office as a Director ipso facto vacated, in any of the following circumstances:
  - if at any time the person has been adjudged bankrupt or has made any arrangement or composition with his/her creditors generally;
  - if found to no longer have adequate decision making capacity in accordance with law;
  - if the person be prohibited or restricted by law from being a Director;
  - if, without prior leave of the Directors, he/she be absent from meetings of the Directors for six successive months (without an alternate attending) and the Directors resolve that his/her office be vacated on that account;
  - if, unless the Directors or a court otherwise determine, he/she be convicted of an indictable offence;
  - if he/she be requested, by resolution of the Directors, to resign his/her office as Director on foot of a unanimous resolution (excluding the vote of the Director concerned) passed at a specially convened meeting at which every Director is present (or represented by an alternate) and of which not less than seven days' written notice of the intention to move the resolution and specifying the grounds therefore has been given to the Director; or
  - if he/she has reached an age specified by the Directors as being that at which that person may not be appointed a Director or, being already a Director, is required to relinquish office and a Director who reaches the specified age continues in office until the last day of the year in which he/she reaches that age.
- In addition, the office of Director is vacated, subject to any right of appointment or reappointment under the Company's Constitution, if:
  - not being a Director holding for a fixed term an executive office in his/her capacity as a Director, he/she resigns their office by a written notice given to the Company, upon the expiry of such notice; or
  - being the holder of an executive office other than for a fixed term, the Director ceases to hold such executive office on retirement or otherwise; or
  - the Director tenders his/her resignation to the Directors and the Directors resolve to accept it; or
  - the Director ceases to be a Director pursuant to any provision of the Company's Constitution.
- Notwithstanding anything in the Company's Constitution or in any agreement between the Company and a Director, the Company may, by ordinary resolution of which extended notice has been given in accordance with the Companies Act 2014, remove any Director before the expiry of his/her period of office.
- The Minister for Finance has the power to nominate two Non-Executive Directors in accordance with the Relationship Framework between the Group and the State and certain provisions as outlined therein. The Relationship Framework is available on the Group's website at https://aib.ie/investorrelations.

The powers of the Directors

Under the Company's Constitution, the business of the Company is to be managed by the Directors, who may exercise all the powers of the Company subject to the provisions of the Companies Act, the Constitution of the Company, and to any directions given by special resolution of a general meeting. The Company's Constitution further provides that the Directors may make such arrangements as may be thought fit for the management, organisation and administration of the Company's affairs, including the appointment of such executive and administrative officers, managers and other agents as they consider appropriate, and may delegate to such persons (with such powers of sub-delegation as the Directors shall deem fit) such functions, powers and duties as the Directors may deem requisite or expedient.

OTHER GOVERNANCE INFORMATION

Other governance information

Relations with shareholders

The Group has a number of procedures in place to allow its shareholders and other stakeholders to stay informed about matters affecting their interests. In addition to this Annual Financial Report, which is available on the Group's website at www.aib.ie/investorrelations and sent in hard copy to those shareholders who request it, the following communication tools are used by the Group:

Website

The Group's website contains, for the years since 2000, the Annual Financial Report, the Half-Yearly Financial Report, and the Annual Report on Form 20-F for relevant years. In accordance with the Transparency (Directive 2004/109/EC) (Amendment) (No.2) Regulations 2015, this and all future Annual and Half-Yearly Financial Reports will remain available to the public for at least ten years. For the period 2008 to 2013, the Annual Financial Report and the Annual Report on Form 20-F were combined. The Group's presentation to fund managers and analysts of annual and half-yearly financial results are also available on the Group's website. None of the information on the Group's website is incorporated in, or otherwise forms part of, this Annual Financial Report.

Annual General Meeting ("AGM")

The AGM is an opportunity for shareholders to hear directly from the Board on the Group's performance and developments of interest for the year to date and, importantly, to ask questions.

All shareholders of the Company are invited to attend the AGM. Separate resolutions are proposed on each separate issue and voting is conducted by way of poll. The votes for, against and withheld on each resolution are subsequently published on the Group's website. It is usual for all Directors to attend the AGM and to be available to meet shareholders before and after the meeting. The Chairs of the Board Committees are available to answer questions about the Committee's activities. A help desk facility is available to shareholders attending the AGM.

The Company's 2023 AGM is scheduled to be held on 4 May 2023. It is intended that Notice of the Meeting will be made available on the Group's website and sent in hard copy to those shareholders who request it, at least 20 working days before the meeting, in accordance with the Financial Reporting Council's Board Effectiveness guidelines. The location of the meeting and attendance options will be communicated with the distribution of the aforementioned Notice.

SUPERVISION AND REGULATION

Throughout 2022, the Group continued to work with its regulators, which include the European Central Bank ("ECB"), the Central Bank of Ireland ("CBI"), the Prudential Regulation Authority ("PRA"), the Financial Conduct Authority ("FCA") in the United Kingdom ("UK"), the New York State Department of Financial Services ("NYSDFS") and the Federal Reserve Bank of New York in the United States of America ("USA") to focus on ensuring compliance with existing regulatory requirements together with the management of regulatory change.

AIB Group plc is the holding company of Allied Irish Banks, p.l.c. (the principal operating company of AIB Group) and as such AIB Group plc is subject to consolidated supervision with respect to Allied Irish Banks, p.l.c. and other credit institutions and investment firms in the Group.

Current climate of regulatory change

The level of regulatory change remained high in 2022 as the regulatory landscape for the banking sector continued to evolve. 2022 saw a continued focus by the Group's regulators on regulatory change implementation dates amidst this evolving regulatory landscape.

The Regulatory focus on Conduct, Culture and Prudential will continue in 2023 and beyond, with expected finalisation of the Senior Executive Accountability Regime as part of the Individual Accountability Framework, the ongoing review of the Consumer Protection Code, and the finalisation of the legislative package implementing Basel III final reforms.

The Group is committed to proactively identifying regulatory obligations arising in each of the Group's operating markets in Ireland, the UK and the USA and ensuring the timely implementation of regulatory change.

Throughout 2022 the Group continued cross-functional programmes to ensure that it met all new regulatory requirements. In particular, the Group focused on the implementation of final elements of the 5th AML Directive, which were enacted into national legislation during the year, monitoring the development of the forthcoming EU AML Reform package, emerging Sanctions measures in response to the invasion of Ukraine, PSD2 Regulatory Technical Standards, the EBA Guidelines on Loan Origination and Monitoring, Climate Change / Sustainability and LIBOR transition as well as the Consumer Rights Act and Protected Disclosures Amendment Act.

Although 2023 will see a heightened focus by regulators and supervisors assessing how recent key regulatory requirements have been implemented and the process for implementation, the level of regulatory change is expected to still remain at high levels in 2023 and beyond.

United Kingdom

During 2022, AIB Group (UK) p.l.c. continued to prioritise compliance with its regulatory obligations in Great Britain and Northern Ireland and will remain focused on this throughout 2023.

Regulatory change horizon – UK

Since the UK left the EU, the regulatory regime within the UK has remained closely aligned with EU regulation. EU regulation has effectively been onshored onto the UK statute book. There has been some regulatory divergence as a result of Brexit and the UK has implemented changes, particularly in relation to financial crime including sanctions. Implications for financial services regulations need to be carefully monitored but given most EU regulations have been transposed into UK law via the Financial Services and Markets Act, the actual impact is unlikely to be significant. AIB UK is well positioned to identify and comply with any changes.

The implementation of Secure Customer Authentication in respect of online transactions conducted using cards was implemented in 2022. This regulatory requirement provides better protection for customers from fraud. Further work is taking place by the Payment System Regulator in relation to authorised push payment fraud to further enhance customer protection. There were a number of strategic initiatives implemented within AIB UK during 2022. Each of these were implemented in line with regulatory requirements and all customers' risks and the associated mitigating actions were fully considered through the AIB (UK) Conduct Committee.

2023 will see the introduction of Confirmation of Payee service to better protect customers from fraud and the implementation of the FCA's new Consumer Duty rules, which require firms "to act to deliver good outcomes for retail customers". Work will commence to deliver the CMA's variable rate payment requirements under its Open Banking mandate.

In addition, UK Regulators are placing a focus on enhancing operational resilience in the UK financial services sector and requiring banks to make plans to take account of climate change.

United States

Compliance with federal and state banking laws and regulations

AIB New York continues to prioritise compliance with its regulatory obligations in the USA and will remain focused on this throughout 2023. The level of regulatory change remained high in 2022.

The passing of the Anti-Money Laundering Act 2020 in 2021 will continue to be a focus throughout 2023 and beyond with the enactment of new rules from FinCEN implementing the provisions.

Regulatory focus on Regulatory Compliance, AML & Sanctions, Climate, LIBOR transition, Cybersecurity & Resiliency continues in 2023, with anticipated regulatory developments in Cybersecurity, including an increased focus on reporting and increased state (NYDFS) and federal (FRB) regulation and enforcements. The NY DFS expected to finalized its second amendment to its 23 NYCRR Part 500 (Cybersecurity Rules) in 2023 which will place significant amendments.

US Regulators will move forward in 2023 with climate-related enhanced supervision and increasingly codified requirements and guidance with certain alignment to European regulations.

Expanded use of digital payments, crypto and digital assets has increased the need for defined regulatory authority around key risk areas.

AIB New York will continue to maintain the annual attestation of compliance to the NYDFS for the AML (DFS 504) and Cybersecurity (DFS 500) Programmes and to the FRB for its Security and Resiliency requirements.

AIB New York will continue to work closely with AIB Group on regulatory changes.

RISK MANAGEMENT

1	**Risk Management Approach**	**130**
1.1	Risk strategy	130
1.2	Identification and assessment	131
1.3	Monitoring, escalating and reporting	133
1.4	Risk culture	133
1.5	Control environment	133

2	**Individual risk types**	**134**
2.1	Credit risk	135
2.2	Liquidity and funding risk	188
2.3	Financial risks	195
	(a) Market risk	195
	(b) Pension risk	200
	(c) Equity risk	201
2.4	Business model risk	202
2.5	Operational risk	202
2.6	Conduct risk	203
2.7	Regulatory compliance risk	204
2.8	People and culture risk	205
2.9	Capital adequacy risk	206
2.10	Model risk	207

1.RISK MANAGEMENT APPROACH

1. Introduction

The risk summary on pages 22 to 26 provides an overview of the Group's core risk management principles and the key areas of focus during 2022. This full risk management section provides a more in-depth picture of how risk is managed, supporting the Group in achieving its strategic objectives, protecting customers and enables us to identify opportunities to grow the Group business safely. A full analysis of the principal risks categories are set out on pages 23 to 26, the framework by which risks are identified, managed, monitored and reported. Each principal risk category is described using standard headings.

The Group uses a comprehensive risk management approach across all risk types. This is outlined in the Group's risk management framework, including the key practices that are implemented in managing risks, both financial and non-financial. It is aligned to the Group's purpose to back its customers to achieve their dreams and ambitions and is designed to support appropriate risk-taking. The framework is reviewed, updated and approved by the Board at least annually to reflect any changes to the Group's business or consideration of external regulations, corporate governance requirements and industry best practice.

The Group's independent Risk function designs and maintains the framework. The Risk function is led by the Chief Risk Officer who provides oversight and monitoring of all risk management activities. At the end of June 2022, Deirdre Hannigan retired as Chief Risk Officer and was succeeded by Michael Frawley.

The landscape of the Irish retail banking market is changing with the exit of Ulster Bank and KBC. In April, the Group received Competition and Consumer Protection Commission ("CCPC") approval for the acquisition of the Ulster Bank corporate and commercial loans, commencing the migration of loans on a phased basis. In June, the Group entered into a binding agreement with NatWest Group plc for the acquisition of a performing Ulster tracker mortgage portfolio and subsequently received in January 2023 clearance from the CCPC. Risk remains committed to maintaining the support we give to our existing and new customers by assessing these transactions as part of the Group's risk management processes including the material risks assessment and within its prudent risk appetite.

1.1 Risk strategy

Integration of key risk management processes

The following section sets out at a high level the Group and Risk strategy setting applicable across the Group, its subsidiaries and joint ventures.

Group strategy

The Group's strategic ambition is to be at the heart of its customers' financial lives by meeting their evolving needs at every life-stage, and providing an exceptional customer experience, while simultaneously delivering a bank with compelling, sustainable capital returns and a considered, transparent and controlled risk profile. The Group's strategy is driven by the five strategic pillars that determine the areas of focus and drive investment. The strategy is defined within the boundaries of the Group's Risk Appetite Statement and approved by the Board. The Group's Risk Appetite Statement defines the amount and type of risk that the Group is willing to accept, in pursuit of its strategic goals.

Risk strategy setting

The risk strategy, articulated through the annual risk plan and the risk objectives, is a key element of the Board's understanding of how risk is to be managed in the short, medium and long term. The Group has a set of strategic risk objectives which support the delivery of the Group's strategy, with a specific focus on the Risk and Capital pillar.

Sustainability

Sustainability is a key strategic objective of the Group and Sustainable Communities is one of the Group's five Strategic Pillars. Managing the sustainability related aspects of the Group involves identifying and managing all related risks that relate to both day-to-day and future operations. See pages 29 to 54 for more details on Sustainability in the Group.

Risk governance and oversight

The Group's Governance and Organisation Framework encompasses the leadership, direction and control of the Group, reflecting policies, guidelines, statutory obligations and ensures that control arrangements provide appropriate governance of the Group's strategy, operations and mitigation of related material risks. This is achieved through a risk governance structure designed to facilitate the reporting, evaluation and escalation of risk concerns, from business segments and control functions upwards to the Board and its appointed committees and sub-committees.

Board of Directors

The Board of Directors is ultimately responsible and accountable for the effective management of risks and for the system of internal controls in the Group. The Board has delegated a number of risk governance responsibilities to various committees. The roles of the Board, the Board Audit Committee, the Board Risk Committee, the Remuneration Committee, Sustainability Business Advisory, Technology and Data Advisory Committee and the Nominations and Corporate Governance Committee are all set out in the Governance and Oversight – Corporate Governance report on pages 75 to 128.

Executive Committee

The Executive Committee has primary authority and responsibility for the day-to-day operations of, and the development of strategy for the Group. The core overarching areas of oversight and decision-making for the Executive Committee are:

- Strategy and Business Development
- Performance and Operations
- Business Structure and Risk Management
- Talent and Culture
- Stakeholder Management

While the Executive Committee has delegated its powers and authorities to other committees, it retains ultimate accountability for the functions delegated.

Group Risk Committee

The Group Risk Committee is the most senior management risk committee and is accountable to the Executive Committee to set policy and monitor all risk types across the Group to enable delivery of the Group's risk strategy.

The roles and responsibilities of the Group Risk Committee are:

- Approving risk frameworks, such as the new ESG Risk Management Framework, Risk Appetite Statements, risk policies and limits to manage the risk profile of the Group;
- Monitoring and reviewing the Group's risk profile (enterprise wide);

- Periodically reviewing the effectiveness of the Group's risk management policies for identifying, evaluating, monitoring, managing, and measuring significant risks;
- Providing oversight and challenge of regulatory, operational and conduct risk related matters;
- Providing oversight and challenge of credit risk management related matters and periodically reviewing the credit portfolio exposures and trends;
- Providing oversight and challenge of risk measurement matters;
- Overseeing the development of the Group's risk management culture;
- Monitoring and reviewing the Group's risk profile and the business segment limits for equity risk;
- Providing advice to the Board Risk Committee on risk governance, current and future risk exposures and risk appetite;
- Reviewing the annual risk assessments prepared by the first line of defence to identify and evaluate all significant risks and related risk management activities;
- Considering the annual Money Laundering Reporting Officer's report; and
- Considering and assessing management's response to Group Internal Audit findings.

The sub-committees of the Group Risk Committee are the Group Credit Committee, the Regulatory and Conduct Risk Committee, the Risk Measurement Committee and the Operational Risk Committee:

- The Group Credit Committee is responsible for the approval of material credit transactions in line with authority levels outlined in the Group Credit Risk policies, to review, approve or recommend to a higher authority Credit Risk Policies and to monitor and review credit management, performance and other credit matters that arise within the Group. The Group Credit Committee also reviews and challenges ECL levels for onward recommendation to the Board Audit Committee;
- The Regulatory and Conduct Risk Committee is responsible for the governance and oversight of regulatory and conduct risks;
- The Risk Measurement Committee is responsible for the governance, oversight and approval of all aspects of the Group's risk measurement systems, material model methodologies as well as the maintenance of existing material models; and
- The Operational Risk Committee is responsible for the governance and oversight of operational risks.

Group Asset and Liability Management Committee("ALCo")

ALCo has been established as a sub-committee of the Executive Committee. ALCo is the Group's strategic and business decision making forum for balance sheet management matters. ALCo is tasked with decision-making in respect of the Group's balance sheet structure, including capital, funding, liquidity, interest rate risk in the banking book ("IRRBB") from an economic value and net interest margin ("NIM") perspective, foreign exchange ("FX") risks and other market risks to ensure it enables the delivery of the Group's Strategic Plan. The Committee manages the funding and liquidity, capital, market and equity/investments risk and balance sheet pricing in line with the relevant risk frameworks and policies in accordance with risk appetite.

Three lines of defence model

The Group operates a three lines of defence model which defines clear responsibilities and accountabilities, ensures effective independent oversight and assurance activities take place covering key decisions. The first line of defence lies with the business line managers who are required to have effective governance and control frameworks in place for their business and to act within the risk appetite parameters set out. The second line of defence comprises the Risk function, and oversees the first line, providing independent constructive challenge, setting the frameworks, policies and limits, consistent with the risk appetite of the Group. The third line of defence comprises Group Internal Audit who provide an independent view on the key risks facing the Group, and the adequacy and effectiveness of governance, risk management and the internal control environment in managing these risks.

The Board and its Sub Committees, Board Risk Committee ("BRC") and Board Audit Committee ("BAC") are ultimately responsible for ensuring the effective operation of the three lines of defence model. They are supported by the Executive Committee ("ExCo") and its sub-committees. The Terms of References for the BRC and BAC are available on the Group's website.

1.2 Identification and assessment

Risk is identified and assessed in the Group through a combination of on-going risk management practices and the following:

- Material risk assessment;
- Risk and control assessment;
- Annual Financial Plan;
- Internal Capital Adequacy Assessment Process ("ICAAP");
- Internal Liquidity Adequacy Assessment Process ("ILAAP");
- Stress testing;
- Recovery planning; and
- Resolution planning.

Material risk assessment

The material risk assessment is a top down process performed on an at least annual basis for the Group which identifies the key material risks and the identification of emerging and evolving risks. This assessment makes use of horizon scanning and takes into account the Group's strategic objectives and incorporates both internal and external risk information. The Board Risk Committee is responsible for the annual approval of the Group material risk assessment.

Risk and control assessment

The first line of defence is responsible for ensuring that detailed bottom up risk and control assessments are undertaken for all businesses or business processes falling under their responsibility. These assessments are performed regularly and whenever there is a material change in organisation, business processes or business environment.

Annual Financial Plan

The financial plan is integral to how the Group manages its business and monitors performance. It informs the delivery of the Group's strategy and is aligned to the Risk Appetite Statement. It enables realistic business objectives to be set for Management, identifies accountability in the Group's delivery of planning targets and identifies the risks to the delivery of the Group's strategic goals and the mitigants of those risks. The plan is produced under a base scenario and assessed under a range of alternative scenarios over a three year time horizon. This assessment forms the basis for consideration of business model risk and internal capital adequacy.

Internal Capital Adequacy Assessment Process ("ICAAP")

It is the Group's policy to maintain adequate capital resources at all times, having regard to the nature and scale of its business and the risks arising from its operations. The ICAAP is the process by which the Group performs a formal and rigorous assessment of its balance sheet, business plans, risk profile and risk management processes to determine whether it holds adequate capital resources to meet both internal objectives and external regulatory requirements. Multiple scenarios are considered for each ICAAP including both systemic and idiosyncratic stress tests ranging from moderate to extreme and are applied to the Group's material risks as identified through its material risk assessment. The stress time horizon of three years is aligned with the planning horizon.

Internal Liquidity Adequacy Assessment Process ("ILAAP")

The Internal Liquidity Adequacy Assessment Process ("ILAAP") is the process by which the Group performs a formal and rigorous assessment of its balance sheet, business plans, risk profile and risk management processes to determine whether it holds sufficient liquid resources of appropriate quality to meet both internal objectives and external regulatory requirements. Multiple scenarios are considered for each ILAAP including both firm specific and systemic risk events and a combination of both to ensure the continued stability of the Group's liquidity position within the Group's pre-defined liquidity risk tolerance levels. The stress time horizon of three years is aligned with the planning horizon.

Stress testing

Stress testing is recognised as a key risk management process by the Group. It seeks to ensure that risk assessment is dynamic and forward looking, and considers not only existing risks but also potential and emerging threats. Stress test methodologies are developed to assess the material risks identified in the material risk assessment process.

The Group's stress testing programme embraces a range of forward looking stress tests and takes all the Group's material risks into account. These include:

- ICAAP stress testing undertaken on an annual basis in support of the Internal Capital Adequacy Assessment Process and is integrated with the Group's annual financial planning process. This aims to highlight the key vulnerabilities of the Group and inform potential future capital needs including capital buffers, in excess of minimum regulatory capital requirements, and internal capital requirements under both base and stressed conditions over the planning horizon;
- Internal capital stress tests on all of the material risks of the Group. These consider the implications of a severe shock across the Group's material risks and additional supporting scenarios as deemed appropriate;
- Annual ILAAP stress testing applied to the funding and liquidity plan to formally assess the Group's liquidity risks;
- Reverse stress testing undertaken at least annually to explore the vulnerabilities of the Group's strategies and plans in extreme adverse events that would cause the Group to fail. The Group will adopt an action plan to prevent and mitigate in the strategic plans;
- Ad hoc stress testing on key core portfolios as required, of emerging risks identified from the material risk assessment process and as well as in response to regulatory requests; and
- Sensitivity analysis assesses the marginal impact of an incremental change in one risk parameter on the Group's capital and liquidity position.

Stress testing methodology

Across all of the Group's material risks, the methodology will be an appropriate blend of model based and expert judgement approaches. Assumptions and outputs are reviewed by impacted businesses and central functions, and via Risk review, to ensure they are plausible and intuitive. All models used in the stress testing process are subject to model validation as per the Group's Model Risk Management Framework. The stress tests comply with all regulatory requirements, achieved through the comprehensive review and challenge of macroeconomic scenarios and stress test outcomes, and the ongoing validation of stress testing models. The Group participated in the ECB's inaugural European-wide Climate Stress Test in 2022.

Recovery planning

The Group's recovery plan sets out the arrangements and measures that the Group could adopt in the event of severe financial stress to restore the Group to long term viability. A suite of indicators and options are included in the Group's recovery plan, which together presents the identification of stress events and the tangible mitigating actions available to the Group to restore viability.

Resolution planning

Resolution is the restructuring of a bank by a resolution authority that has failed or is likely to fail, through the use of resolution tools in order to:

- safeguard the public interest;
- ensure the continuity of the Group's critical functions;
- ensure financial stability in the economy in which it operates; and
- minimise costs to taxpayers.

The Group is under the remit of the Single Resolution Board ("SRB") due to its systemic importance. The SRB, in cooperation with the National Resolution Authorities, (Central Bank of Ireland for Ireland and Bank of England for the UK) draft the resolution plan for the Group. The resolution plan describes the Preferred Resolution Strategy ("PRS"), in addition to ensuring the continuity of the Group's critical functions and the identification and addressing of any impediments to the Group's resolvability.

The PRS for the Group is a single point of entry bail-in via AIB Group plc. The resolution authorities set the loss absorbing capacity requirements for Minimum Requirements for own funds and Eligible Liabilities, in addition to any work programmes required to mitigate any perceived impediments to resolvability. Senior management are responsible for implementing the measures that are needed to ensure the Group's resolvability and there are a number of governance fora such as subject matter working groups and a Resolution Steering Committee that provides governance and oversight around resolution planning. Key deliverables to the SRB are approved by Resolution Steering Committee, GRC/ExCo (Group and UK) and Board (Group and UK).

1.3 Monitoring, escalating and reporting

Setting risk appetite

The Board sets the risk appetite for the Group informed by the material risk assessment. Risk appetite is the nature and extent of risk that the Group is willing to take, accept, or tolerate in pursuit of its business objectives and strategy. It also informs the Group's strategy, and as part of the Risk Management Framework, is a boundary condition to strategy and guides the Group in its risk taking and related business activities. The financial plan is tested to ensure it is within the risk appetite.

The Group Risk Appetite Statement is an articulation of the Group's appetite for, and tolerance of risk expressed through qualitative statements and quantitative limits and thresholds. The Group Risk Appetite Statement seeks to encourage appropriate risk taking to ensure that risks are consistent with the Group strategy and risk appetite. The Group Risk Appetite Statement cascades into key business segments with separate Risk Appetite Statements for each licenced subsidiary reflecting the risk appetite of the subsidiary as a standalone entity.

Risk measurement

Each of the material risks has a specific approach to how the risk is measured. The Group Risk Appetite Statement and the separate Risk Appetite Statements for the licensed subsidiaries contain metrics which are measured on a monthly basis against the limits set.

Risk management

The material risk types are actively managed and measured against their respective frameworks, policies and processes on an ongoing basis. Risk models are used to measure credit, market, liquidity and funding risk, and where appropriate, capital is allocated (taking account of risk concentrations) to mitigate material risks. The management and measurement of the Group's risk profile also informs the Group's strategic and operational planning processes.

Risk reporting

Risk reporting facilitates management decision-making and is a critical component of risk governance and oversight. Risk reporting processes are in place for each of the material risks under the relevant risk frameworks and policies. This enables management, governance committees and other stakeholders to oversee the effectiveness of the risk management processes, adherence to risk policies, and (where relevant) adherence to regulatory requirements.

The CRO reports actual performance against Risk Appetite Statements to the Board Risk Committee. A material breach of a Risk Appetite Statement limit is reported to the Board and the Group's regulator when appropriate.

1.4 Risk culture

Risk culture is an integral part of the Group's overall culture and is vital for the Group to achieve its strategic objectives. The risk culture defines how risk is managed and owned throughout the Group. It is the values, behaviours, beliefs, knowledge, attitudes, awareness and understanding of, and towards risk shared by people. It sets the foundation for how the Group manages risk in a consistent and coherent manner. An effective Group Risk Appetite Statement is highly dependent on risk culture. Risk culture is one of the key elements of the Group's Risk Management Framework; it is through the risk framework and policy documents that an awareness of risk and control is set and cascaded throughout the Group including a Conduct Risk Framework which emphasises the criticality of ensuring fair customer outcomes. The Group's promotion of risk learning through recommended risk training and education supports the embedding of risk culture. These ongoing activities are supported by an annual Group wide risk awareness week to reinforce key risk themes.

1.5 Control environment

The Group has implemented testing and assurance activities with the objective to provide assurance to the Board, and its delegated sub-committees on the design and operating effectiveness of the control environment within the Group. The material risk types are continuously tested and assured in line with the Group assurance methodology, which distinguishes between risk management, risk control and risk assurance. Each line of defence is responsible for preparing business controls testing plans with consideration of the adequacy of the risk identified and the design and effectiveness of the controls in place. The combined assurance is the alignment of governance, risk and assurance activities, linked with the Group's strategy with the objective to provide better co-ordinated efforts, risk reporting, and to continuously improve performance and resilience.

2. INDIVIDUAL RISK TYPES

2.1 Credit Risk 135

Definition 135

Credit risk organisation and structure 136

Measurement, methodologies and judgements 140

Credit profile of the loan portfolio 154

Loans and advances to customers – Asset class analysis 160

Residential mortgages 160

Other personal 165

Property and construction 167

Non-property business 169

Gross loans and ECL movements 178

Credit ratings 185

Forbearance 186

2.1 Credit risk

Key Developments in 2022:
- The migration of the Ulster Bank portfolio of corporate and commercial loans has progressed on a phased basis throughout the year and has been subject to the appropriate credit review and grading processes.
- In June 2022, the Group entered into a binding agreement with NatWest Group plc for the acquisition of a performing tracker mortgage portfolio from Ulster Bank. Work has commenced from a credit management perspective in preparation for the migration of this loan portfolio.
- The credit quality of the portfolio has remained relatively stable during the year, however the Group is closely monitoring risk arising from the macroeconomic environment notably energy-driven inflation, rising interest rates and further weakening of the UK economy.
- The ongoing conflict between Russia and Ukraine has contributed to the uncertain economic backdrop.
- The Group remains focused on its sustainability agenda, including the impact of climate risk which continues to be incorporated and embedded within the credit assessment process.

Definition of Credit risk

Credit risk is the risk that the Group will incur losses as a result of a customer or counterparty being unable or unwilling to meet their contractual obligations and associated bank credit exposure in respect of loans or other financial transactions.

Based on the annual risk identification and materiality assessment, credit risk is grouped into the following three sub categories:

i. Counterparty risk: The risk of losses arising as a result of the counterparty not meeting their contractual obligations in full and on time and the resulting credit default risk / risk of loss leading to a risk to capital;

ii. Concentration risk: The risk of excessive credit concentration including to an individual, counterparty, group of connected counterparties, industry sector, a geographic region, country, a type of collateral or a type of credit facility; and

iii. Country risk: The risk of having exposure to a country, arising from possible changes in the business environment that may adversely affect operating profits or the value of assets related to the country.

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

Group Risk Appetite Statement

The Group’s Risk Appetite Statement (“RAS”) defines the amount and types of risks that the Group is willing to take, accept, or tolerate in pursuit of its business objectives and strategy as set by the Board. As part of the overall framework for risk governance, it forms a boundary condition to strategy and guides the Group in its risk-taking and related business activities. Credit risk appetite is set at Board level and is described, reported and monitored through a suite of qualitative and quantitative metrics. The credit risk metrics cover the three sub risks identified as part of the AIB Group material risk assessment process – counterparty risk, concentration risk and country risk, and include concentration limits on quantum of new lending, balance sheet exposure and credit quality. Risk appetite is stress tested to ensure limits are within the risk-taking capacity of the Group. The Group’s risk appetite for credit risk is reviewed and approved at least annually.

Credit risk management

The activities which govern the management of credit risk within the Group are as follows:

- Establish governance authority fora to provide independent oversight and assurance to the Board with regards to credit risk management activities and the quality of the credit portfolio;
- Formulate and implement a comprehensive credit risk strategy that is viable through various economic cycles, supported by a suite of credit policies, is aligned to the Group’s approved Risk Appetite Statement and generates appropriate returns on capital within acceptable levels of credit quality;
- Operate within a sound and well defined credit granting process, within which risks for new and existing lending exposures, including connected exposures, are consistently identified, assessed, measured, managed, monitored and reported in line with risk appetite and the credit risk policies;
- Ensure all management and staff involved in core credit risk activities across the three lines of defence are fully capable of conducting their duties to the highest standard in compliance with the Group’s policies and procedures;
- Establish and enforce an efficient internal review and reporting system to manage effectively the Group’s credit risk across various portfolios including, establishing and enforcing internal controls and assurance practices to ensure that exceptions to policies, deviations to credit standards and limits are monitored and reported in a timely manner for review and action;
- Ensure a sound methodology exists and credit policies are in place to proactively assess credit risk, to identify deteriorating credit quality and take remedial action to minimise losses, provide customers with affordable and sustainable solutions and maximise recovery for the Group. This includes consideration of, and the granting of, forbearance measures;
- Utilise quality management information and risk data of appropriate quality, to ensure an effective credit risk management and measurement process when reporting on the holistic credit risk profile of the Group, including any changes in credit risk profile and emerging or horizon risks;
- Mitigate potential credit risk arising from new or amended products or activities, including the identification and analysis of existing and potential risks inherent in any credit product or activity; and
- Develop and continuously reinforce a strong, credit risk focused culture across the credit risk management functions through the credit cycle, which supports the Group’s goals and enables business growth, provides constructive challenge and avoids credit risks that cannot be adequately measured.

The Group’s credit risk framework supports these credit activities and encompasses a suite of credit policies and standards which support the credit risk sanctioning policies and policy guidance and provide a common and consistent approach to the management of credit risk.

2.1 Credit risk

Credit risk principles and policy*

The Group implements and operates policies to govern the identification, assessment, approval, monitoring and reporting of credit risk. The Group Credit Risk Framework and Group Credit Risk Policy are overarching Board approved documents which set out the principles of how the Group identifies, assesses, approves, monitors and reports credit risk to ensure that robust credit risk management is in place. These documents contain the minimum standards and principles that are applied across the Group to provide a common, robust and consistent approach to the management of credit risk.

The Group Credit Risk Policy is supported by a suite of credit policies, standards and guidelines which define in greater detail the minimum standards and credit risk metrics to be applied for specific products, business lines, and market segments.

Credit Risk, as an independent risk management function, monitors key credit risk metrics and trends, including policy exceptions and breaches, reviews the overall quality of the loan book, challenges variances to planned outcomes and tracks portfolio performance against agreed credit risk indicators. This allows the Group, if required, to take early and proactive mitigating actions for any potential areas of concern.

Credit approval overview

The Group operates credit approval criteria which:

- Include a clear indication of the Group's target market(s), in line with Group and segment risk appetite statements;
- Require a thorough understanding and assessment of the borrower or counterparty, as well as the purpose and structure of credit, and the source of repayment; and
- Enforce compliance with minimum credit assessment and facility structuring standards.

Credit risk approval is undertaken by professionals operating within a defined delegated authority framework. However, for certain selected retail portfolios, scorecards and automated strategies (together referred to as 'score enabled decisions') are deployed to automate and to support credit decisions and credit management (e.g. score enabled auto-renewal of overdrafts).

The Board is the ultimate credit approval authority in the Group. The Board has delegated credit authority to various credit committees and to the Chief Credit Officer ("CCO"). The CCO is permitted to further delegate this credit authority to individuals within the Group on a risk appropriate basis. Credit limits are approved in accordance with the Group's written risk policies and guidelines.

All exposures above certain levels require approval by the Group Credit Committee ("GCC") and/or Board. Other exposures are approved according to a system of tiered individual authorities which reflect credit competence, proven judgement and experience. Depending on the borrower/connection, grade or weighted average facility grade and the level of exposure, limits are sanctioned by the relevant credit authority. Material lending proposals are referred to credit units for independent assessment/approval or formulation of a recommendation and subsequent adjudication by the applicable approval authority.

Credit risk organisation and structure

The Group's credit risk management systems operate through a hierarchy of lending authorities. All customer loan requests are subject to a credit assessment process. The role of the Credit Risk function is to provide direction, independent oversight of and challenge to credit risk-taking.

Internal credit ratings*

One of the objectives of credit risk management is to accurately quantify the level of credit risk to which the Group is exposed through the initial credit approval and ongoing review process. All relevant exposures are assigned to a rating model and within that to an internal risk grade (rating). A grade is assigned on the basis of rating criteria within each rating model from which estimates of probability of default (PD) are derived.

Internal credit grades are fundamental in assessing the credit quality of loan exposures, and for assessing capital requirements for portfolios where prior regulatory approval has been received. Internal credit grades are key to management reporting, credit portfolio analysis, credit quality monitoring and in determining the level and nature of management attention applied to exposures. Changes in the objective information are reflected in the credit grade of the borrower/loan with the resultant grade influencing the management of individual loans. In line with the Group's credit management lifecycle, heightened credit management and special attention is paid to lower quality performing loans or 'criticised' loans and non-performing/defaulted loans which are defined below.

Using internal models, the Group has designed and implemented a credit grading masterscale that gives it the ability to categorise credit risk across different rating models and portfolios in a consistent manner. Masterscale consolidates complex credit information into a single attribute, aligning the output from the risk models with the Group's Forbearance and Definition of Default and Credit Impairment policies. Masterscale grades are driven by grading model appropriate through the cycle (TTC) PDs combined with other asset quality indicators such as default, forbearance and arrears in order to provide the Group with a mechanism for ranking and comparing credit risk associated with a range of customers. Masterscale categorises loans into a broad range of grades which can be summarised into the following categories: strong/satisfactory grades; criticised grades; and non-performing/default loans. Page 158 and 159 sets out the profile of the Group's loan portfolio under each of the above grade categories.

The IFRS 9 PD modelling approach uses a combination of rating grades and scores obtained from these credit risk models along with key factors such as the current/recent arrears status or the current/recent forbearance status and macroeconomic factors to obtain the relevant IFRS 9 12 month and Lifetime PDs (i.e. point in time). The Group has set out its methodologies and judgements exercised in determining its expected credit loss ("ECL") under IFRS 9 on pages 140 to 151.

Strong/satisfactory

Accounts are considered strong/satisfactory if they have no current or recent credit distress and the probability of default is typically less than 6.95%, they are not in arrears and there are no indications that they are unlikely to repay.

Strong (typically with PD less than 0.99%): Strong credit with no weakness evident.

Satisfactory (typically with PD greater than or equal to 0.99% and less than 6.95%): Satisfactory credit with no weakness evident.

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*Forms an integral part of the audited financial statements

2.1 Credit risk

Internal credit ratings* continued

Criticised

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

Non-performing/default

The Group's definition of default is aligned with the EBA 'Guidelines on the application of the definition of default' under Article 178 of Capital Requirements Regulation and ECB Banking Supervision Guidance to Banks on non-performing loans.

The Group has aligned the definitions of 'non-performing', 'classification of default' and IFRS 9 Stage 3 'credit impaired', with the exception of loans measured at fair value through profit and loss, and those loans which have been derecognised and newly originated in Stage 1 or POCI (purchased or originated credit impaired) which are no longer classified as credit impaired but continue to be classified as non-performing and in default. This alignment ensures consistency with the Group's internal credit risk management and assessment practices.

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

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

The Group's definition of financial distress and forbearance are included in the Group's Forbearance Policy. Identification of non-performing exposures and unlikeliness to pay are included in the Group's Definition of Default and Credit Impairment Policy.

Credit risk monitoring*

The Group has developed and implemented processes and information systems to monitor and report on individual credits and credit portfolios in order to manage credit risk effectively. It is the Group's practice to ensure that adequate up-to-date credit management information is available to support the credit management of individual account relationships and the overall loan portfolio.

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

Changes in sectoral and single name concentrations are tracked on a regular basis highlighting changes to risk concentration in the Group's loan book. The Group allocates significant resources to ensure ongoing monitoring and compliance with approved risk limits. Credit risk, including compliance with key credit risk limits, is reported monthly. Once an account has been placed on a watch list, the exposure is carefully monitored and where appropriate, exposure reductions are effected.

As a matter of policy, non-retail facilities are subject to a review on, at least, an annual basis, even when they are performing satisfactorily. Annual review processes are supplemented by more frequent portfolio and case review processes in addition to arrears or excess management processes. Borrowers in Stage 2 are subject to an 'unlikely to pay' test at the time of annual review, or earlier, if there is a material adverse change or event in their credit risk profile.

Through a range of forbearance solutions as outlined on page 186, the Group employs a dedicated approach to loan workout, monitoring and proactive management of non-performing loans. A specialised recovery function focuses on managing the majority of criticised loans and deals with customers in default, collection or insolvency. Their mandate is to support customers in difficulty while maximising the return on non-performing loans. Whilst the basic principles for managing weaknesses in corporate, commercial and retail exposures are broadly similar, the solutions reflect the differing nature of the assets.

Further details on forbearance are set out in 'Risk management 2.1 Additional credit quality and forbearance disclosures on loans and advances to customers'.

Credit risk mitigants*

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

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

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

The Group also has in place an Interbank Exposure Policy which establishes the maximum exposure for each counterparty bank, depending on credit grade rating. Each bank is assessed for the appropriate maximum exposure limit in line with the policy. Risk generating business units in each segment are required to have an approved bank and country limit prior to granting any credit facility, or approving any credit obligation or commitment which has the potential to create interbank or country exposure.

*Forms an integral part of the audited financial statements

2.1 Credit risk

Credit risk mitigants* continued

Collateral

Credit risk mitigation may include a requirement to obtain collateral as set out in the Group's lending policies. Where collateral and/or guarantees are required, they are usually taken as a secondary source of repayment in the event of a borrower's default. The Group maintains policies which detail the acceptability of specific classes of collateral.

The principal collateral types for loans and advances are:
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over other assets such as plant and machinery, marine vessels etc.;
- Mortgage/legal charge over residential and commercial real estate; and
- Charges over financial instruments such as debt securities and equities.

The nature and level of collateral required depends on a number of factors such as the type of the credit facility, the term of the credit facility and the amount of exposure. Collateral held as security for financial assets, other than for 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 or where the bank purchases covered bonds as part of its liquidity portfolio.

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

Methodologies for valuing collateral

Details on the valuation rule methodologies applied and processes used to assess the value of property assets taken as collateral are described in the Group Property Valuation Policy and Property Valuation Guidance. Both documents are subject to an annual review.

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

The value of property collateral is assessed at loan origination and at certain stages throughout the credit lifecycle in accordance with the Group Property Valuation Policy e.g. at annual review where required.

In accordance with the Group Property Valuation Policy and guidelines, the Group employs a number of methods to assist in reaching appropriate valuations for property collateral held:

a. External valuation firms on the Group's Valuers Panel, are engaged by the Group to undertake valuations of immovable property collateral in accordance with the rules set out in the Group Property Valuation Policy.
b. Independent professional internal valuations are completed in limited circumstances (e.g. agricultural land) using a desktop valuation approach by professional qualified internal valuers who are independent of the credit process in the second line of defence. The assets being valued by this means must have an independent professional external valuation completed within the past 3 years.
c. Internal valuations are completed by first line of defence case managers pursuant to the rules in the Property Valuation Policy and in line with the Property Valuation Guidance, which provides appropriate valuation methodology guidance. These include the following valuation methodologies:
    I. Index valuation approach – used for residential property;
    II. Comparable valuation approach – a basic level of valuation methodology used to value agricultural land or as a sense check for the valuation of residential, commercial or development land;
    III. Commercial investment valuation approach – used for the valuation of commercial property using the Group's commercial investment yield matrices;
    IV. Residual valuation approach – used for the valuation of development land or land with development potential; and
    V. Profits valuation approach – used for the valuation of trading assets i.e. hotels, licensed, convenience stores etc. using the Group's stabilized EBITDA matrices.

Collateral and ECLs

Applying one or a combination of the above methodologies, in line with the Group Property Valuation Policy, has resulted in an appropriate range of discounts to original collateral valuations, influenced by the nature, status and year of purchase of the asset. The frequency and availability of such up-to-date valuations remain a key factor in ECL determination. Additionally, relevant costs likely to be associated with the realisation of the collateral are taken into account in the cash flow forecasts. The spread of discounts is influenced by the type of collateral, e.g. land, developed land or investment property and also its location. The valuation arrived at, is therefore, a function of the nature of the asset.

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

When undertaking an ECL review for individually assessed cases that have been deemed unlikely to pay, the present value of future cash flows, including the value of collateral held, and the likely time required to realise such collateral is estimated. An ECL allowance is raised for the difference between this present value and the carrying value of the loan.

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2.1 Credit risk

Credit risk mitigants* continued

Summary of risk mitigants by selected portfolios

Set out below are details of risk mitigants used by the Group in relation to financial assets detailed in the maximum exposure to credit risk table on page 152.

Loans and advances to customers - residential mortgages

The following table shows the estimated fair value of collateral held for the Group's residential mortgage portfolio at 31 December 2022 and 2021:

	2022					2021				
	At amortised cost					At amortised cost				
	Stage 1 € m	**Stage 2 € m**	**Stage 3 € m**	**POCI € m**	**Total € m**	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Fully collateralised(1)										
Loan-to-value ratio:										
Less than 50%	**15,109**	**691**	**375**	**45**	**16,220**	13,192	703	447	35	14,377
50% – 70%	**9,340**	**375**	**176**	**31**	**9,922**	8,657	486	237	39	9,419
71% – 80%	**2,288**	**56**	**40**	**5**	**2,389**	3,843	158	86	13	4,100
81% – 90%	**1,452**	**15**	**12**	**1**	**1,480**	1,040	54	51	8	1,153
91% – 100%	**123**	**6**	**11**	**—**	**140**	102	19	51	1	173
	28,312	**1,143**	**614**	**82**	**30,151**	26,834	1,420	872	96	29,222
Partially collateralised										
Collateral value relating to loans over 100% loan-to-value	**43**	**9**	**12**	**—**	**64**	61	18	28	1	108
Total collateral value	**28,355**	**1,152**	**626**	**82**	**30,215**	26,895	1,438	900	97	29,330
Gross residential mortgages	**28,396**	**1,158**	**638**	**87**	**30,279**	26,937	1,446	921	103	29,407
ECL allowance	**(40)**	**(38)**	**(196)**	**(9)**	**(283)**	(34)	(41)	(276)	(31)	(382)
Net residential mortgages	**28,356**	**1,120**	**442**	**78**	**29,996**	26,903	1,405	645	72	29,025

(1) The value of collateral held for residential mortgages which are fully collateralised has been capped at the carrying value of the loans outstanding at each year end.

For residential mortgages, the Group takes collateral in support of lending transactions for the purchase of residential property. Collateral valuations are required at the time of origination of each residential mortgage. The value at 31 December 2022 and 2021 is estimated based on property values at origination or date of latest valuation and applying the CSO Residential Property Price Index (Republic of Ireland) and Nationwide House Price Index (Great Britain & Northern Ireland) to these values to take account of price movements in the interim.

Securities financing

In addition to the credit risk mitigants outlined on the previous pages, the Group, from time to time, enters securities financing transactions. Securities financing consists of securities borrowing, securities lending, sale agreements and repurchase agreements. At 31 December 2022, the total fair value of the collateral received was € 6,282 million (2021: € 3,890 million) in relation to repurchase agreements, reverse repurchase agreements and securities borrowing agreements (note 20).

Derivatives

Derivative financial instruments are recognised in the statement of financial position at their fair value. Those with a positive fair value are reported as assets which at 31 December 2022 amounted to € 2,511 million (2021: € 882 million) and those with a negative fair value are reported as liabilities which at 31 December 2022 amounted to € 2,982 million (2021: € 1,062 million).

The enforcement of netting agreements would potentially reduce the statement of financial position carrying amount of derivative assets and liabilities by € 2,220 million at 31 December 2022 (2021: € 529 million). The Group also has Credit Support Annexes ("CSAs") in place which provide collateral for derivative contracts. At 31 December 2022, € 795 million (2021: € 570 million) of CSAs are included within financial assets as collateral for derivative liabilities and € 245 million (2021: € 100 million) of CSAs are included within financial liabilities as collateral for derivative assets (note 39 to the consolidated financial statements). Additionally, the Group has agreements in place which may allow it to net the termination values of cross currency swaps upon occurrence of an event of default.

Investment securities

At 31 December 2022, government guaranteed senior bank debt which amounted to € 259 million (2021: € 317 million) was held within the investment securities portfolio.

*Forms an integral part of the audited financial statements

2.1 Credit risk

Measurement, methodologies and judgements*

Introduction

The Group has set out the methodologies used and judgements exercised in determining its expected credit loss ("ECL") allowance for the year to 31 December 2022.

The 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 Financial Instruments ("the standard"). This model requires a timely recognition of ECL across the Group. The standard does not prescribe specific approaches to be used in estimating ECL allowance, 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 Purchased or Originated Credit Impaired ("POCI"); 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.

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

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

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

Bases of measurement

Under the standard, there are two measurement bases:

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

Staging

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

Credit risk at origination

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

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

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

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

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. For these assets, lifetime ECLs are recognised.

The 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

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

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2.1 Credit risk

Measurement, methodologies and judgements* continued

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

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

Lender assessed SICR triggers: The qualitative SICR criteria for non-retail portfolio Stage 2 classification have been further enhanced and embedded in the year. Further specific qualitative SICR indicators have been identified in order to ensure appropriate and timely identification of increased credit risk, which when occur, trigger a SICR event.

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

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

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

Stage 3 characteristics

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

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

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

Purchased or originated credit impaired ("POCI")

POCIs are assets originated credit impaired and that have a discount to the contractual value when measured at fair value. The Group uses an appropriate discount rate for measuring ECL in the case of POCIs which is the credit-adjusted effective interest rate. This rate is used to discount the expected cash flows of such assets to fair value on initial recognition.

POCI obligations remain outside of the normal stage allocation process for the lifetime of the obligation. The ECL for POCI obligations is always measured at an amount equal to lifetime expected credit losses. The amount recognised as a loss allowance for these assets is the cumulative change in lifetime expected credit losses since the initial recognition of the assets rather than the total amount of lifetime expected credit losses.

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. The Group's IFRS 9 models have been developed and approved in line with the Group's Model Risk Management Framework. (An overview of credit risk models is outlined on pages 142 and 143).

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

iii. Discounted cash-flows ("DCFs"): Assets are grouped together and modelled based on asset classification and sector with the exception of those Stage 3 assets where a DCF is used. DCFs are used as an input to the ECL calculation for Stage 3 credit impaired exposures where gross credit exposure is ≥ € 1 million (Republic of Ireland) or ≥ £ 500,000 (UK). Multiple DCFs are captured where gross credit exposure is ≥ € 5 million (Republic of Ireland) or ≥ £ 5 million (UK) or cases in scope for the Group Leveraged Lending Policy, to reflect the case specific impacts of up and downside scenarios for these higher value exposures.

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

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2.1 Credit risk

Measurement, methodologies and judgements* continued

iv. Management judgement: Where the estimate of ECL does not adequately capture all available forward looking information about the range of possible outcomes, or where there is a significant degree of uncertainty, management judgement may be considered appropriate for an adjustment to ECL. The management adjustment must consider all relevant and supportable information, including but not limited to, historical data analysis, predictive modelling and management experience. The methodology to incorporate the adjustment should consider the degree of any relevant over collateralisation (headroom) and should not result in a zero overall ECL unless there is sufficient headroom to support this. The key judgements in the 2022 year end ECL estimates are outlined on pages 150 and 151.

Effective interest rate

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

- The Group uses an approximation approach based on the account level interest rate when calculating ECL which is applied to both drawn and undrawn commitments.
- This approach is subject to an annual assessment that all approximations remain appropriate and do not result in a material misstatement of the ECL.
- The Group has tested the appropriateness of using current interest rates as an approximation for the discount rates required for measuring ECLs. This testing determined that using the current interest rates as the discount rates is an appropriate approximation.

Policy elections and simplifications

Low credit risk exemption

The 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 the Group to assume, without more detailed analysis, that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have 'low credit risk' at the reporting date. The Group allocates such assets to Stage 1.

Under IFRS 9, the credit risk on a financial instrument is considered low if:

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

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

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

Short term cash

The Group's IFRS 9 Impairment Policy does not require calculation of an ECL for short term cash at central banks and other banks which have a low risk of default with a very low risk profile. The calculation of the ECL at each reporting date would be immaterial given these exposures' short term nature and their daily management.

Lease receivables and trade receivables

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

IFRS 9 ECL Credit Risk models

The IFRS 9 ECL models provide the risk parameters which are the inputs into the model driven estimate of ECL which is used across all Stage 1 and Stage 2 portfolios plus all non-DCF Stage 3 exposures.

IFRS 9 Portfolio Delineation

The IFRS 9 models are delineated into retail and non-retail portfolios. The retail IFRS 9 portfolios provide exposure level risk parameter estimates which take into account borrower level characteristics and metrics where appropriate, whilst the non-retail portfolios provide metrics which are either borrower or connection level estimates.

Probability of default

Probability of default ("PD") is the likelihood that an account or borrower defaults over an observation period, given that they are not currently in default, for each year of the expected contractual lifetime of the exposure. The PD is a point in time estimate which is reflective of the current and expected economic conditions.

In order to capture the appropriate risk dynamics across the lifetime of the exposure the development process considers:

- Macroeconomic effects captured through factors such as unemployment rate and GDP;
- Cross-sectional risk discriminators in particular the internal rating model outputs plus other factors such as forbearance and days past due; and
- Seasoning factors such as product type, delinquency and forbearance status.

Loss given default

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

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*Forms an integral part of the audited financial statements

2.1 Credit risk

Measurement, methodologies and judgements* continued

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

– **Retail portfolios**

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

For secured loans the following may be considered:

- The value of underlying collateral is estimated at the forecasted time of disposal (taking into account forecasted market price growth/falls and haircuts on market values that are expected at the date of sale plus associated costs) in order to calculate the future recovery amount;
- The potential for the exposure to be deleveraged through a portfolio sale taking into account the costs associated with same; and
- Paths for returning to the performing portfolios such as forbearance and self-cure.

– **Non-retail portfolios**

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

For secured loans, the value of the underlying collateral is estimated at the reporting date. This is used to estimate the ECL based on historical experience of discounted recoveries.

Exposure at default

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

Prepayments

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

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

Determining the period over which to measure ECL

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

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

The expected maturity approach is:

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

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 'macroeconomic scenarios and weightings' section for more detail on the process for generating scenarios and associated key macroeconomic factors relevant for the models. In circumstances where there is a risk that the modelled output fails to capture the appropriate response to changes in the macroeconomic environment such as inflation and interest rate changes, these risks are captured through the use of post model adjustments.

Write-offs

When the prospects of recovering a loan, either partially or fully, do not improve, a point may come when it will be concluded that as there is no realistic prospect of recovery, the loan and any related ECL will be written-off. The Group determines, based on specific criteria, the point at which there is no reasonable expectation of recovery. When the following criteria exist (or comparable circumstances arise), the loan can be subject to a partial or full write-off:

- A decision has been taken to enforce on a loan, due to no agreement with the customer for a restructure / settlement and all customer engagement with the Bank regarding their loan agreement has ceased;
- Inception of informal insolvency proceedings has commenced or is about to commence;
- Receivership or other formal recovery action (e.g. where expectation of recovery of collateral is expected through enforcement activity but no additional recoveries above the collateral value are anticipated) has commenced or is about to commence; and
- A loan is substantially provided for or no material repayments have been received for a period of time (minimum 12 months) and all customer engagement with the Bank regarding their loan agreement has ceased.

Debt forgiveness may subsequently arise where there is a formal contract with the customer for the write-off of the loan. In addition, certain forbearance solutions and restructuring agreements may include an element of debt write down (debt forgiveness). Details of forbearance are set out in Risk management 2.1 Additional credit quality and forbearance disclosures on loans and advances to customers.

The contractual amount outstanding of loans written-off during the year that are still subject to enforcement activity are outlined on page 177 and relate to non-contracted write-offs, both full and partial. The Group recognises cash received from the customer in excess of the carrying value of the loan after a non-contracted write-off as 'recoveries of amounts previously written-off' in the income statement.

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2.1 Credit risk

Measurement, methodologies and judgements* continued

Critical Judgements during the year:

- ECL allowance stock relating to post model adjustments (PMAs) has increased by € 54 million in the year to € 608 million. ECL allowance stock relating to PMAs as a percentage of total ECL stock is 37% (2021: 29%). New PMAs in the year seek to capture potential impacts due to inflationary and interest rate pressures including elevated probability of default in performing commercial real estate exposures and an increase in ECL stock relating to non-legacy NPE exposures reflecting the economic uncertainty. Further details are outlined in the management judgements section on pages 150 and 151.
- Despite recovering strongly following the COVID-19 recession, the Irish economy has been impacted through the course of 2022 by a number of headwinds affecting the global economy which are likely to weigh on the outlook (Base scenario) in 2023 and 2024. These include higher inflation and interest rates, tight labour markets, supply chain bottlenecks, a less supportive fiscal stance and further, albeit less severe, waves of COVID-19 infections. Against this backdrop, the economies in which the Group operates are projected to grow at more modest rates over the next two years (the UK is an exception as a mild recession is expected in 2023 and 2024) with a gradual rise in unemployment rates in prospect. Inflationary pressures in these markets should dissipate somewhat in 2023 but are unlikely to revert toward the 2% target rate set by central banks until 2025 onwards.
- The Group is of the view that risks to the economic outlook are firmly tilted to the downside and, for the purposes of IFRS 9 ECL reporting, has applied the following weightings for year-end 2022 with Base 45% (change -5% compared to year-end 2021), Moderate Upside 10% (change -10%), Moderate Downside 30% (change +5%) and Severe 15% (change +10%). Further details are outlined in the macroeconomic scenarios and weightings section below.
- The Group's sensitivity analysis to the macroeconomic scenario weightings are outlined on page 149. Under the 100% downside 'Energy shock and persistently high inflation' scenario, this would result in a 15% increase compared to the reported ECL allowance stock.

Macroeconomic scenarios and weightings

The macroeconomic scenarios used by the Group for ECL allowance calculation purposes have been developed in a consistent way with that set out in the 2021 Annual Financial Report and have been subject to the Group's established governance process covering the development and approval of macroeconomic scenarios used for planning and internal stress testing purposes. The macroeconomic scenarios and attached probabilities are reviewed by the Asset and Liability Committee ("ALCo") regularly, and such reviews took place frequently during 2022 in response to economic developments. The macroeconomic scenarios are then reviewed by the Board Risk Committee ("BRC") and approved for use by the Board. The scenario probabilities are approved by the Board Audit Committee ("BAC").

The parameters used within the 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 scenario are then weighted by the assessed likelihood of occurrence of the respective scenarios to yield the ECL outcome.

Macroeconomic scenarios:

Following the Russian invasion of Ukraine in February 2022, global energy and food commodity prices surged. This intensified pre-existing inflationary pressures caused by supply bottlenecks in many economies as they recovered following the lifting of COVID-19 restrictions. Against this background, the greatest risk to the outlook (Base scenario) is for persistently elevated inflation coupled with higher interest rates which depress economic activity. A range of possible scenarios has been considered in formulating the ECL calculation, as at the financial reporting date. These entail credible risks and uncertainties to the economic outlook including inter alia possible energy supply rationing, a deterioration in financial conditions, renewed short waves of COVID-19 infections, as well as a prolonged period of elevated inflation – all possible triggers of a future economic downturn.

AIB have used four scenarios in the ECL calculation consisting of a base scenario, along with three alternative scenarios. These consist of one upside; a mild downside scenario entailing disruptions to energy supplies and a re-emergence of the COVID-19 virus; while a more severe downside considers a cut-off of Russian gas supplies to Europe with persistently high inflation which necessitates a hike in official interest rates. Non-linear effects are captured in the development of risk parameters as well as through the inclusion of both the single upside and two downside scenarios.

The Group's Economic Research Unit ("ERU") provide the scenario forecasts over five years. These are then independently reviewed and challenged, on both a quantitative and qualitative basis, by the Group Risk function. The Base case is benchmarked against the outlook available from official sources (e.g. Central Bank of Ireland, Bank of England, Department of Finance, ESRI, ECB, IMF, 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 kept under review by the Group ALCo and approved by the Board.

*Forms an integral part of the audited financial statements

2.1 Credit risk

Measurement, methodologies and judgements* continued

Macroeconomic scenarios and weightings continued

The long term projections reflect the relatively limited climate change mitigation policies, mainly comprising the continued gradual substitution of gas for coal, that have been announced so far. Without significantly enhanced mitigating actions, the world is on course to warm by about 2°C above pre-industrial levels by 2050. The AIB long term baseline scenario seeks to follow the IEA's "stated policies" scenario and implies emissions remaining roughly constant. The Group participated in the ECB Climate Stress Tests in early 2022; it was evident that the scale of the economic shocks applied was quite modest compared to those applied in stress testing for ICAAP and ECL calculations. The impacts considered under this ECB Climate Stress Test process will be repeated every second year. The nature of the shock is different with a long term horizon compared to front loaded shocks as part of quarterly stress tests.

The scenarios used for the year-end ECL process are described below and reflect the views of the Group as at the reporting date.

Base case: A combination of a very sharp acceleration in inflation, partly owing to the war in Ukraine, and marked tightening of monetary policy & financial conditions has seen a pronounced slowdown in global growth in 2022, which is expected to extend well into 2023. The economic backdrop has become far more challenging as we move into a period of weak growth, elevated inflation and rising interest rates. As a result, global growth forecasts for 2022-23 have been scaled back significantly from earlier in the year.

The Base scenario assumes very weak GDP growth in the US and Euro Area of 0.7% and 0.5% respectively in 2023, with the latter seeing a technical recession. The UK economy is expected to contract by 1.0% in 2023. As a small open economy, in line with this global trend, Ireland is expected to see growth moderating albeit remaining relatively strong given a continued favourable product mix in its large multi-national sector. Overall Irish GDP growth of 4% is projected, which is somewhat below most official forecasts reflecting a higher inflation projection by AIB.

A moderate pick-up in global growth is anticipated from 2024 onwards (boosted by real household incomes and easing financial conditions) which will mean a continued solid expansion for the Irish economy where average GDP growth of close to 4% is assumed for 2024 and 2025. The UK market will remain weak however (contraction in both 2023 and 2024) with the economy recovery delayed until 2025.

House price growth in Ireland is expected to moderate significantly over the forecast period but remain positive due to the ongoing supply shortfall, high savings and a relatively strong labour market. By comparison the UK housing market is expected to contract as the sharp increase in interest rates and reduction in disposable incomes take hold. Given the challenges it faces, most especially from remote working, both Irish and UK Commercial property prices are forecast to contract sharply in 2023 (by 9% and 8% respectively).

Unemployment is expected to rise only moderately over the period 2023 to 2025, as most labour markets are characterised by a shortage of workers and high job vacancies. For Ireland the unemployment rate is expected to remain in a low range of 4.5-5.0% over the period 2022-27.

The combination of weakening activity and positive base effects, should see Irish inflation fall back to circa 2% by end 2024. Although a similar trajectory is expected in the major economies, with inflation still running above levels they are comfortable with, Central Banks are expected to continue to hike interest rates aggressively into 2023, hitting 3.5% in the Euro Area, circa 5.13% in the US and 4.75% in the UK. .

Downside 1 ('Lower growth in 2023'): In the AIB Moderate Downside scenario, risks to growth prove to have a more negative impact on activity than provided for in the Base scenario. For Ireland these are primarily driven by global conditions. In particular, the war in Ukraine has a more significant impact on growth than expected, with ongoing disruptions of gas supplies to Europe from Russia. There are continuing short waves of COVID-19 infections necessitating some restrictions on activity, most notably in China.

As a result, the major economies all experience a significant recession in 2023, with the downturn continuing in the UK in 2024. This is followed by a sluggish recovery in activity. In Ireland's case, GDP growth slows sharply to 2.5% in 2023 and 2024. There is a marked rise in unemployment everywhere, climbing to circa 7.5% in both the UK and Ireland during 2025.

There are significant falls in property prices. House prices in Ireland & the UK decline by circa 9% and 15%, respectively, over the 2023-2024 period. There are even bigger falls in commercial property prices of circa 16% in both markets in 2023-24.

Interest rates peak at the end of 2022, with central banks implementing rate cuts in 2023-24 on the view that leaving policy unchanged would see inflation fall to 2% by end 2024 onwards. Rates are cut to 0.5% in the Euro Area/UK and circa 0.63% in the US.

Downside 2 ('Energy shock and persistently high inflation'): Under the second downside scenario, the war in Ukraine has a much more severe impact on global economic activity than anticipated. Inflation stays very high in 2023-2024 with ongoing interruptions in European gas imports from Russia, continuing disruptions to global supply chains, greater second round price effects and wage inflation picking up. Central banks are forced into a very sharp tightening of monetary policy. Conditions in financial markets tighten further, with a surge in bond yields, blow out in credit spreads and more sharp falls on stock markets. Emerging markets come under severe pressure in particular.

The combination of energy and financial market shocks as well as the very sharp tightening of monetary policy triggers a severe global recession in 2023-24. The main economies see GDP decline by circa 2% in 2023 and 2.0-2.5% in 2024. Irish GDP growth slows to 1.0-1.5% in 2023-24 and is 6.3% lower by 2025 than in Base scenario. There is a moderate pick up in global activity from 2025.

Unemployment rates rise to very high levels in the main economies with Irish unemployment increasing sharply to 10% by end 2025 and remaining high in 2026-2027. In line with the global trend, Irish inflation remains high in the initial period (8% in 2023 V 5.2% in base) before graduating to 2.0% in 2026 due to the slowdown in economic activity led by the tighter financial conditions.

*Forms an integral part of the audited financial statements

2.1 Credit risk

Measurement, methodologies and judgements* continued

Macroeconomic scenarios and weightings continued

The sharp fall in economic activity and confidence levels imply very large property price falls in Ireland and the UK. Irish and UK residential property prices fall by 24% and 29%, respectively, between 2023 and early 2025 and are circa 26-28% lower versus the Base scenario by 2025. CRE prices in Ireland and the UK fall by circa 35-36% in the period 2023-25.

Central banks raise rates to 5.25-5.38% in the UK and US and 4.0% in the Euro Area in the first half of 2024. Inflation falls back in the second half of 2024 allowing central banks to lower rates aggressively. Rates do not return to previous lows as inflation settles around its 2% target in 2025-26. Thus, rates come down to 1% in the Euro Area/UK and circa 1.13% in the US, some 250 to 300 basis points below the levels assumed in the Base scenario.

Upside ('Quick economic recovery'): In the upside scenario, the key assumptions consist of a combination of a relatively quick cessation of hostilities in Ukraine in early 2023 coupled with an accelerated deployment of vaccines globally which brings about a quicker than expected suppression of the coronavirus. In addition, a strong rebound in business and consumer confidence facilitates a rundown of personal and corporate savings. The confluence of these developments helps boost global growth and consequently this feeds into the Irish economy.

In this scenario, GDP is some 3.2% higher in most economies than in the base case by 2025. Irish GDP growth averages 5% over the period 2023-2025 before returning to more moderate rates of growth (3-4%) over 2026-27. As a result, unemployment falls further reaching 3.6% on 2026-27 (5.0% in base). With a stronger economy, inflation goes even higher and is slower to decline than in the base case, only getting back to 2% in 2027.

With the stronger growth in economic activity, Irish and UK property prices perform much better than in the base case scenario. Irish house price rise by 4-5% per annum over 2023-25, with UK prices up 2-3%. Meanwhile, Commercial property prices rise by circa 3% per annum over 2023-2025 in both countries.

Central banks hike rates at a quicker pace than in the base. Rates rise to circa 5.13%% in the US, 5% in the UK and 3.75% in the Euro Area.

The table below sets out the five year average forecast for each of the key macroeconomic variables that are required to generate the scenarios or are material drivers of the ECL under (i) Base, (ii) Downside 1, (iii) Downside 2 and (iv) Upside scenarios at 31 December 2022 (average over 2023-2027) and at 31 December 2021 (average over 2022-2026).

	December 2022 5 year (2023-2027) average forecast				December 2021 5 year (2022-2026) average forecast			
Macroeconomic factor (%)	**Base**	**Downside 1 ('Lower growth in 2023')**	**Downside 2 ('Energy shock and persistently high inflation')**	**Upside ('Quick economic recovery')**	Base	Downside 1 ('Lower growth in 2022')	Downside 2 ('Persistent high inflation')	Upside ('Quick economic recovery')
Republic of Ireland								
GDP growth	**3.6**	**3.4**	**2.6**	**4.3**	3.8	3.4	2.6	4.5
Residential property price growth	**2.5**	**0.2**	**(4.3)**	**3.8**	2.9	1.4	(2.1)	5.0
Unemployment rate	**5.0**	**6.8**	**8.5**	**3.9**	5.7	9.7	11.9	4.8
Commercial property price growth	**1.0**	**(1.6)**	**(6.6)**	**2.7**	1.7	0.3	(4.6)	4.0
Employment growth	**1.6**	**1.1**	**0.2**	**1.9**	2.6	2.0	1.4	2.9
Average disposable Income growth	**5.1**	**4.3**	**3.4**	**6.0**	3.5	2.6	1.8	3.8
Inflation	**2.7**	**2.7**	**3.9**	**3.5**	1.7	1.3	2.4	2.2
United Kingdom								
GDP growth	**0.4**	**0.3**	**(0.3)**	**1.5**	2.4	1.8	1.1	3.0
Residential property price growth	**0.2**	**(1.6)**	**(5.7)**	**2.2**	2.0	(0.1)	(3.7)	3.0
Unemployment rate	**5.1**	**6.8**	**8.3**	**3.7**	4.6	6.6	8.0	4.3
Commercial property price growth	**0.2**	**(2.2)**	**(6.9)**	**2.6**	1.5	(0.6)	(5.1)	3.6
Inflation	**3.3**	**3.3**	**4.4**	**4.2**	2.0	1.7	2.5	2.4

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2.1 Credit risk

Measurement, methodologies and judgements* continued

Macroeconomic scenarios and weightings continued

Additional information is provided in the table below which details the individual macroeconomic factor forecast for each year across the four scenarios, at 31 December 2022.

	Estimate	Base					Downside 1 ('Lower growth in 2023')				
Macroeconomic factor	2022 %	2023 %	2024 %	2025 %	2026 %	2027 %	2023 %	2024 %	2025 %	2026 %	2027 %
Republic of Ireland											
GDP growth	8.0	4.0	3.7	4.0	3.5	3.0	2.5	2.5	3.5	4.0	4.5
Residential property price growth	5.0	2.5	2.5	2.5	2.5	2.5	(7.0)	(2.5)	5.0	3.0	2.5
Unemployment rate	4.6	4.8	5.0	5.0	5.0	5.0	5.6	6.8	7.4	7.5	7.0
Commercial property price growth	(3.5)	(9.0)	5.0	3.0	3.0	3.0	(12.5)	(4.5)	3.0	3.0	3.0
Employment growth	6.0	1.5	1.5	1.7	1.6	1.5	0.6	0.4	0.9	1.4	2.0
Average disposable income growth	3.5	6.5	5.3	4.7	4.6	4.5	5.0	4.0	4.0	4.0	4.5
Inflation	8.3	5.2	2.5	2.0	2.0	2.0	5.2	2.5	2.0	2.0	2.0
United Kingdom											
GDP growth	4.3	(1.0)	(0.5)	0.6	1.3	1.5	(1.5)	(1.2)	0.8	1.5	1.7
Residential property price growth	4.5	(3.0)	(1.0)	1.0	2.0	2.0	(11.0)	(4.5)	1.5	3.0	3.0
Unemployment rate	3.9	4.6	5.2	5.5	5.3	5.0	5.5	6.7	7.5	7.5	7.0
Commercial property price growth	(3.5)	(8.0)	(2.0)	3.0	4.0	4.0	(12.5)	(4.0)	1.5	2.0	2.0
Inflation	9.2	7.5	3.0	2.0	2.0	2.0	7.5	3.0	2.0	2.0	2.0

	Downside 2 ('Energy shock and persistently high inflation')					Upside ('Quick economic recovery')				
Macroeconomic factor	2023 %	2024 %	2025 %	2026 %	2027 %	2023 %	2024 %	2025 %	2026 %	2027 %
Republic of Ireland										
GDP growth	1.0	1.5	2.5	3.5	4.5	5.5	4.5	5.0	3.7	3.0
Residential property price growth	(8.0)	(15.0)	(1.0)	1.0	1.5	5.0	4.5	4.0	3.0	2.5
Unemployment rate	6.0	7.8	9.3	10.0	9.5	4.3	4.1	3.8	3.6	3.6
Commercial property price growth	(17.0)	(18.5)	(4.0)	2.5	4.0	4.0	3.0	2.5	2.0	2.0
Employment growth	(0.1)	(0.9)	(0.6)	0.6	2.0	2.3	2.1	2.0	1.7	1.5
Average disposable Income growth	4.0	3.0	3.0	3.0	3.8	8.0	6.5	5.5	5.2	5.0
Inflation	8.0	5.0	2.5	2.0	2.0	6.0	4.0	3.0	2.5	2.0
United Kingdom										
GDP growth	(2.3)	(2.5)	—	1.5	2.0	1.0	1.5	2.0	1.7	1.4
Residential property price growth	(14.0)	(16.0)	(1.0)	1.0	1.5	3.0	2.0	2.0	2.0	2.0
Unemployment rate	6.0	7.8	9.0	9.5	9.0	3.8	3.7	3.6	3.7	3.8
Commercial property price growth	(17.0)	(18.5)	(5.5)	2.5	4.0	3.5	3.0	2.5	2.0	2.0
Inflation	9.0	6.0	3.0	2.0	2.0	8.0	5.0	3.7	2.5	2.0

The key changes to the scenario forecasts in the reporting period have been driven by the outbreak of war in Ukraine, following the Russian invasion, in addition to mounting inflationary pressures and monetary policy tightening by global central banks. The wider economic impact of the war in Ukraine has generated elevated uncertainty with respect to the economic outlook largely due to concerns over energy security and a surge in pre-existing inflationary pressures largely driven by much higher commodity prices (in particular gas and raw foodstuffs). These developments feed directly into the Irish economy and have resulted in a significant re-assessment of the outlook and balance of risks during 2022.

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

Similar to the scenario forecasts, the probability weight assigned to each scenario is proposed by the ERU, with a review and challenge from the Group Risk function. These are reviewed regularly at Group ALCo and are subject to approval at Board Audit Committee. The probabilities described below reflect the views of the Group at the reporting date.

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2.1 Credit risk

Measurement, methodologies and judgements* continued

Macroeconomic scenarios and weightings continued

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

These weightings are reviewed regularly by Group ALCo and adjusted where required. The key drivers of the weightings are:

- The Base scenario assumptions were regularly benchmarked against consensus projections which were subject to downward revision in light of the weak global backdrop and downside risks facing the macroeconomic outlook.
- Forecasts released in the closing months of 2022 from the IMF, OECD, ECB, ESRI, Central Bank of Ireland and the Department of Finance were close to the AIB projections. The AIB forecasts remain on the conservative side of most recent external benchmarks, especially in relation to Ireland. Most releases of Irish economic data, have been trending stronger than our forecasts. This includes variables such as GDP, Modified Final Domestic Demand, unemployment and house prices.
- The balance of risks to the forecasts is still heavily skewed to the downside with revisions to consensus forecasts for growth in 2023-2024 trending firmly downwards. Forecasters also highlight that the balance of risks to their latest projections remain tilted to the downside, with real concerns that the world economy could be hit by recession in 2023 – the AIB moderate downside and severe scenarios entail significant recessions in the major economies and a significant departure from its trend growth rate in the case of Ireland.
- The risk that inflation will prove slow to fall back remains a real concern, which would pose a downside risk to Irish growth prospects in 2023-24 in terms of an ongoing hit to real disposable incomes and consumer spending. The war in Ukraine has added to downside risks, especially in relation to the flow of European gas supplies in 2023-24.

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

Scenario	**Weighting** **December 2022**
Base	**45%**
Downside 1 (‘Lower growth in 2023’)	**30%**
Downside 2 (‘Energy shock and persistently high inflation’)	**15%**
Upside (‘Quick economic recovery’)	**10%**

	Weighting December 2021
Base	50%
Downside 1 (‘Lower growth in 2022’)	25%
Downside 2 (‘Persistent high inflation’)	5%
Upside (‘Quick economic recovery’)	20%

In assessing the adequacy of the ECL allowance, the Group has considered all available forward looking information as of the balance sheet date in order to estimate the future expected credit losses. The 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 the Group’s expectation, the Group’s estimate of ECL would increase accordingly.

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2.1 Credit risk

Measurement, methodologies and judgements* continued

Sensitivities

The Group's estimates of expected credit losses are responsive to varying economic conditions and forward looking information. These estimates are driven by the relationship between historic experienced loss and the combination of macroeconomic variables. Given the co-relationship of each of the macroeconomic variables to one another and the fact that loss estimates do not follow a linear path, a sensitivity to any single economic variable is not meaningful. As such, the following sensitivities are provided which indicate the approximate impact on the current ECL allowance before the application of probability weights to the forward looking macroeconomic scenarios. The sensitivities provide an indication of ECL movements that include changes in model parameters, quantitative 'significant increase in credit risk' ("SICR") staging assignments with post model adjustments sensitivity predominantly reflected only where scenario specific features form an integral part of the adjustment. Further details on post model adjustments are outlined on pages 150 and 151.

Relative to the base scenario, in the 100% downside 'Lower growth in 2023' and 'Energy shock and persistently high inflation' scenarios, the ECL allowance increases by 9% and 21% respectively. In the 100% upside scenario, the ECL allowance declines by 7%, showing that the ECL impact of the two downside scenarios is greater than that of the upside scenario. For 31 December 2022, a 100% downside 'Lower growth in 2023' and 'Energy shock and persistently high inflation' scenario sees a higher ECL allowance sensitivity of € 142 million and € 342 million respectively compared to base (€ 56 million and € 256 million respectively compared to reported).

Higher relative impacts are observed for the AIB UK portfolio partly due to a scenario specific post model adjustment being applied to reflect greater impact within the downside scenarios than that currently observed, based on the deployed macroeconomic scenarios.

	ECL allowance at 31 December 2022				
	Reported	**100% Base**	**100% Downside Scenario ('Lower growth in 2023')**	**100% Downside Scenario ('Energy shock and persistently high inflation')**	**100% Upside Scenario ('Quick economic recovery')**
Loans and advances to customers	**Total € m**	**Total € m**	**Total € m**	**Total € m**	**Total € m**
Residential mortgages	**283**	**275**	**284**	**318**	**271**
Other personal	**177**	**175**	**179**	**185**	**173**
Property and construction	**320**	**298**	**331**	**385**	**282**
Non-property business	**838**	**790**	**878**	**977**	**711**
Total	**1,618**	**1,538**	**1,672**	**1,865**	**1,437**
Off-balance sheet loan commitments	**59**	**55**	**60**	**65**	**53**
Financial guarantee contracts	**19**	**17**	**20**	**22**	**13**
	1,696	**1,610**	**1,752**	**1,952**	**1,503**
Of which:					
AIB UK segment	**245**	**214**	**259**	**336**	**196**

	ECL allowance at 31 December 2021				
	Reported	100% Base	100% Downside Scenario ('Lower growth in 2022')	100% Downside Scenario ('Persistent high inflation')	100% Upside Scenario ('Quick economic recovery')
Loans and advances to customers	Total € m	Total € m	Total € m	Total € m	Total € m
Residential mortgages	382	376	392	434	370
Other personal	222	216	237	257	213
Property and construction	313	284	378	473	266
Non-property business	968	921	1,074	1,236	895
Total	1,885	1,797	2,081	2,400	1,744
Off-balance sheet loan commitments	53	49	63	80	45
Financial guarantee contracts	26	24	30	35	22
	1,964	1,870	2,174	2,515	1,811
Of which:					
AIB UK segment	268	266	277	321	253

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2.1 Credit risk

Measurement, methodologies and judgements* continued

Management judgements

Post model adjustments (PMAs) are applied where Management believe that they are necessary to ensure an adequate level of ECL provision and to address known model limitations and/or emerging trends not captured in the models. All PMAs are approved under the ECL governance process through which the appropriateness of PMAs are considered against the backdrop of the risk profile of the loan book, recent loss history or changes in underlying resolution strategies not captured in the models and management's view of emerging trends.

The PMAs approved for 31 December 2022 (and 2021 comparison, where applicable), are set out below and categorised as follows:

- NPE resolution – ECL adjustments where the current model does not take into account alternative resolution strategies such as portfolio sales and to ensure that downside risks are appropriately incorporated into the final loss estimate.
- Emerging headwinds – ECL adjustments required where the modelled outcomes are not sensitive to the uncertainties associated with the impact of current emerging economic headwinds.
- Macroeconomic factors – ECL adjustments reflecting a greater impact from downside scenarios / timing of certain macroeconomic factors.
- Other – ECL adjustments where it was judged that an amendment to the modelled ECL was required.

					2022
	Residential mortgages	**Other personal**	**Property and construction**	**Non-property business**	**Total**
Management Judgements	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
NPE resolution	**140**	**—**	**37**	**73**	**250**
Emerging headwinds	**43**	**11**	**69**	**124**	**247**
Macroeconomic factors	**20**	**—**	**10**	**20**	**50**
Other	**—**	**—**	**—**	**61**	**61**
PMA Total	**203**	**11**	**116**	**278**	**608**

					2021
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
Management Judgements	€ m	€ m	€ m	€ m	€ m
NPE resolution	207	5	26	28	266
Uncertainty due to the impact of COVID-19	18	9	5	153	185
Macroeconomic factors	29	—	—	—	29
Other	1	—	1	72	74
PMA Total	255	14	32	253	554

NPE resolution

At 31 December 2022, the Retail Banking PMA mainly related to mortgages which have been classified as non-performing for a considerable length of time has been retained to reflect expected outcomes from alternative strategies which may be adopted, such as portfolio sales. LGD models are based on empirical internal data assuming business as usual resolution and given that the models do not account for alternative strategies, post model adjustments have been applied to reflect the potential outcomes, pending model redevelopment.

The completion of a non-performing portfolio sale in the year has resulted in a reduction in this PMA, particularly within residential mortgages where the ECL PMA stock has reduced from € 207 million at 31 December 2021 to € 140 million at 31 December 2022.

A new post model adjustment was introduced for year end 2022 in order to increase the ECL cover for non-performing exposures classified as non legacy (defaulted subsequent to December 2018). This adjustment reflects management judgement that the downside scenario for these cases may be more severe than currently reflected through the modelled process.

The impact of potential reductions in future cash flows and security values, particularly within commercial real estate and small and medium enterprise exposures, have been considered as part of the governance process.

This PMA primarily impacts the Retail Banking and Capital Markets property (€ 29 million) and non-property business (€ 51 million) portfolios.

Similarly in AIB UK, a post model adjustment of £ 26 million includes the impact of the above non-performing PMA and also reflects the impact of alternative strategies such as portfolio sales.

Emerging headwinds

Particular focus from management was on assessing portfolios impacted by the combined effects of cost of living challenges, persistent inflationary pressures and rising interest rates on customers' ability to repay. The ultimate impact of these effects is highly uncertain, however should they lead to a reduction in customers' ability to meet their loan repayment obligations, there could be an increase in credit risk which could have a negative impact on the asset quality of the Group's loan portfolios.

Within the Retail Banking portfolio, a PMA of € 72 million has been introduced to reflect the increased probability of default due to rising interest rates and increased cost of living. The PMA has been applied within the performing portion of the residential mortgage portfolio, € 43 million, personal portfolio, € 11 million, and non-property business portfolio, € 18 million.

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*Forms an integral part of the audited financial statements

2.1 Credit risk

Measurement, methodologies and judgements* continued

Within Capital Markets a PMA of € 163 million represents the potential impacts on the non-property business (€ 99 million) and property (€ 64 million) portfolios due to the potential impact of inflation (including higher energy costs) and higher interest rates on non-property business and property exposures resulting in an increase in borrower forbearance arrangements. This has been an area of particular focus for management.

Within AIB UK, a new PMA of £ 10 million (£ 7 million non-property business and £ 3 million property) also reflects the impact of higher interest rates and a slowdown within CRE.

While COVID-19 specific PMAs have now been significantly released, those affected borrowers whose recovery may be impacted by emerging headwinds are incorporated within this PMA.

Macroeconomic factors

In Retail Banking, an ECL adjustment continues to be applied to reflect limitations within the mortgage model relating to the house price index (HPI) growth. This is to ensure that the ECL remains appropriate for the underlying portfolio acknowledging the limitations within the model.

The HPI index parameter, which assumes growth over the long term, has reduced the LGD thereby impacting ECL cover on Stage 1, Stage 2 and Stage 3 loans (not covered by the NPE resolution strategy adjustment above). An adjustment has been made to reflect the Group's potential alternative recovery strategies for the impacted loans that are or could become credit impaired.

This adjustment amounted to € 20 million (Stage 1: € 5 million, Stage 2: € 5 million and Stage 3: € 10 million).

In addition, in AIB UK, an ECL adjustment of £ 27 million (Stage 1: £ 11 million and Stage 2: £ 16 million) has been applied predominately in the non-property business (£ 18 million) and property (£ 9 million) portfolios to reflect a greater impact within the downside scenarios than that currently observed, based on the deployed macroeconomic scenarios at 31 December 2022.

Other

For the Syndicated & International Finance (SIF) portfolio in Capital Markets, it was previously determined that historically observed relationships between default rates and macroeconomic factors in the modelled probabilities of default needs to be increased for this portfolio.

Accordingly, expert credit judgement has determined a post model adjustment is required of € 61 million at 31 December 2022 (Stage 1: € 17 million and Stage 2: € 44 million).

Other post model adjustments in this category are not individually significant.

ECL governance

The Board has put in place a framework, incorporating the governance and delegation structures commensurate with a material risk, to ensure credit risk is appropriately managed throughout the Group.

The key governance points in the ECL allowance approval process during 2022 were:

- Model Risk Committee;
- Asset and Liability Committee;
- Business level ECL Committees;
- Group Credit Committee; and
- Board Audit Committee

For ECL governance, the Group's senior management employ expert judgement in assessing the adequacy of the ECL allowance. This is supported by detailed information on the portfolios of credit risk exposures, and by the outputs of the measurement and classification approaches described above, coupled with internal and external data provided on both short term and long term economic outlook. Business segments and Group management are required to ensure that there are appropriate levels of cover for all of the credit portfolios and must take account of both accounting and regulatory compliance when assessing the expected levels of loss.

Assessment of the credit quality of each business segment and subsidiaries is initially informed by the output of the quantitative analytical models but may be subject to management adjustments. This ECL output is then scrutinised and approved at individual business unit level (ECL Committee), which also includes subsidiaries, prior to onward submission to the Group Credit Committee ("GCC"). GCC reviews and challenges ECL levels for onward recommendation to the Board Audit Committee as the final approval authority.

Credit risk management consideration of ESG risks

The Group continues to adapt its credit risk management processes and policies to capture environmental, social, and governance ("ESG") risks. Throughout 2022, the Group has remained focused in embedding the following key initiatives:

- Continued use of heat mapping exercises in order to scale individual sub-sector exposures to levels of climate change and environment risks.
- Relevant Business Credit Application Guidelines/Procedures and Credit Sanctioning policies requirements in respect of the assessment of certain borrowers' exposure to ESG factors, in particular environmental factors and impact of climate change and the appropriateness of mitigating strategies as set out by the borrower are continuing to embed.
- The ESG questionnaire was implemented in our credit risk management process in 2021 for certain cohorts requiring a more intensive analysis of borrowers in sub-sectors considered as part of the heat mapping exercise to have a higher risk to climate change related and environmental risks. In 2022 work commenced to further enhance and refine this tool, broadening the scope of coverage at both counterparty and sector level.
- The property valuation process continues to obtain BER/EPC ratings where applicable, which are captured in collateral valuations and recorded on the Group's systems.
- A Sustainable Lending Framework was introduced in 2021 and continues to categorise and identify relevant lending activities as green/transition for internal tracking and external disclosure purposes.
- The impact of climate risk was considered as part of the ECL governance process for the position at 31 December 2022 and it was deemed that insufficient evidence of the likely loss impacts from climate events is available to adjust ECLs. The impact of climate risk will continue to be monitored in 2023 to ensure ECLs appropriately reflect latent risk from potentially emerging climate risks.

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2.1 Credit risk – Credit exposure overview

Key Credit Profile Metrics in 2022:

- There was a € 7 million net credit impairment charge in the year (2021: € 238 million writeback). This comprised of a € 316 million charge in the second half of the year which incorporates post model adjustments to address emerging headwinds and downside risks from inflation and interest rate impacts on credit quality; and a € 309 million writeback in the first half of the year reflecting the economic environment in Ireland with robust credit quality & repayments, updated macroeconomic assumptions as well as some release of post model adjustments.
- Total gross loans and advances to customers have increased from € 58.4 billion to € 61.2 billion in the year which was due to new lending and the ongoing Ulster Bank corporate and commercial portfolio acquisition. ECL stock of € 1.6 billion represents 2.7% ECL cover (2021: € 1.9 billion, 3.2%).
- Total new lending in the year was € 12.6 billion which reflects an increase of € 2.2 billion versus last year (2021: € 10.4 billion). The increase in new lending was primarily driven by mortgage lending in Retail Banking and real estate finance in Capital Markets.
- The credit quality composition of the portfolio has remained relatively stable during the year. Non-Performing loans at € 2.2 billion, have decreased by € 0.9 billion or 31% in the year and now represent 3.5% of total gross loans (2021: 5.4%).

Maximum exposure to credit risk*

Maximum exposure to credit risk from on-balance sheet and off-balance sheet financial instruments is presented before taking account of any collateral held or other credit enhancements (unless such enhancements meet accounting offsetting requirements). For financial assets recognised on the statement of financial position, the maximum exposure to credit risk is their carrying amount, and for financial guarantees and similar contracts granted, it is the maximum amount the Group would have to pay if the guarantees were called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, it is generally the full amount of the committed facilities.

The following table sets out the maximum exposure to credit risk that arises within the Group and distinguishes between those assets that are carried in the statement of financial position at amortised cost and those carried at fair value at 31 December 2022 and 2021

			2022			2021
Maximum exposure to credit risk	**Amortised cost[1] € m**	**Fair value[2] € m**	**Total € m**	Amortised cost[1] € m	Fair value[2] € m	Total € m
Balances at central banks[3]	**37,565**	**—**	**37,565**	42,109	—	42,109
Derivative financial instruments	**—**	**2,511**	**2,511**	—	882	882
Loans and advances to banks	**1,502**	**—**	**1,502**	1,323	—	1,323
Loans and advances to customers	**59,364**	**249**	**59,613**	56,265	243	56,508
Securities financing	**6,282**	**—**	**6,282**	3,890	—	3,890
Investment securities[4]	**4,131**	**11,837**	**15,968**	4,071	12,589	16,660
Included elsewhere:						
Trade receivables	**99**	**—**	**99**	372	—	372
Items in course of collection	**51**	**—**	**51**	44	—	44
Accrued interest	**281**	**—**	**281**	307	—	307
	109,275	**14,597**	**123,872**	108,381	13,714	122,095
Loan commitments and other credit related commitments	**15,060**	**—**	**15,060**	13,727	—	13,727
Financial guarantees	**802**	**—**	**802**	819	—	819
	15,862	**—**	**15,862**	14,546	—	14,546
Total	**125,137**	**14,597**	**139,734**	122,927	13,714	136,641

(1) All amortised cost items are loans and advances and investment securities which are in a 'held-to-collect' business model.

(2) All items measured at fair value are classified as 'fair value through profit or loss' except investment securities at FVOCI, net investment hedge derivatives and cash flow hedging derivatives.

(3) Included within cash and balances at central banks of € 38,138 million (2021: €42,654 million).

(4) Excluding equity shares of € 302 million (2021: € 274 million).

*Forms an integral part of the audited financial statements

2.1 Credit risk – Credit exposure overview

Credit risk exposure derives from standard on-balance sheet products such as mortgages, loans, overdrafts and credit cards. In addition, credit risk arises from other products and activities including, but not limited to: "off-balance sheet" guarantees and commitments; securities financing; investment securities; asset backed securities; and the failure/partial failure of a trade in a settlement or payments system.

The following table summarises financial instruments in the statement of financial position at 31 December 2022 and 2021:

	2022*				2021*			
			Statement of financial position	**Income statement**			Statement of financial position	Income statement
	Exposure	**ECL allowance**	**Carrying amount**	**Net credit impairment writeback/ (charge)**	Exposure	ECL allowance	Carrying amount	Net credit impairment (charge)/ writeback
	€ m	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m
Cash and balances at central banks	**38,138**	**—**	**38,138**	**—**	42,654	—	42,654	—
Loans and advances to banks	**1,502**	**—**	**1,502**	**—**	1,323	—	1,323	—
Loans and advances to customers:								
at amortised cost	**60,982**	**(1,618)**	**59,364**	**(5)**	58,150	(1,885)	56,265	233
at FVTPL	**249**	**n/a**	**249**	**—**	243	n/a	243	—
	61,231	**(1,618)**	**59,613**	**(5)**	58,393	(1,885)	56,508	233
Securities financing	**6,283**	**(1)**	**6,282**	**—**	3,891	(1)	3,890	(1)
Investment debt securities(1)	**15,971**	**(3)**	**15,968**	**(2)**	16,661	(1)	16,660	—
Other – Stockbroking client debtors	**36**	**(1)**	**35**	**—**	36	(1)	35	—
– Items in course of collection	**51**	**—**	**51**	**—**	44	—	44	—
Loan commitments	**15,060**	**(59)**	**(59)**	**(7)**	13,727	(53)	(53)	2
Financial guarantee contracts	**802**	**(19)**	**(19)**	**7**	819	(26)	(26)	4
Total(2)				**(7)**				238

(1) ECL allowance amounting to € 3 million (2021: € 3 million) included in carrying amount of investment securities at FVOCI.
(2) The total net credit impairment charge of € 7 million includes the impact of the Ulster Bank portfolio acquired during the year which resulted in a net charge of € 45 million, of which € 39 million related to loans and advances to customers at amortised cost and € 6 million relating to loan commitments.

There was a € 7 million net credit impairment charge in the year (2021: € 238 million writeback). This comprised of a € 5 million charge on loans and advances to customers (net remeasurement of ECL allowance charge of € 50 million and recoveries of amounts previously written-off of € 45 million) and a € 2 million charge on investment debt securities. A € 7 million charge on loan commitments was offset by a € 7 million writeback on financial guarantees (2021: € 233 million writeback (net remeasurement writeback of € 158 million and recoveries of € 75 million) and a € 6 million writeback for off-balance sheet exposures. There was also a € 1 million charge on securities financing measured at amortised cost).

Further details on the net credit impairment charge in the year to 31 December 2022 are set out on pages 157 and 269.

*Forms an integral part of the audited financial statements

2.1 Credit risk – Credit profile of the loan portfolio

The Group’s customer loan portfolio comprises loans (including overdrafts), instalment credit and finance lease receivables. An overdraft provides a demand credit facility combined with a current account. Borrowings occur when the customer’s drawings take the current account into debit. The balance may, therefore, fluctuate with the requirements of the customer. Although overdrafts are contractually repayable on demand (unless a fixed term has been agreed), provided the account is deemed to be satisfactory, full repayment is not generally demanded without notice.

The following table analyses loans and advances to customers at amortised cost by segment, internal credit ratings and ECL staging at 31 December 2022 and 2021:

Amortised cost

					2022					2021
	Retail Banking	**Capital Markets**	**AIB UK**	**Group**	**Total**	Retail Banking	Capital Markets	AIB UK	Group	Total
Gross carrying amount	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m	€ m
Residential mortgages	**28,764**	**528**	**987**	**—**	**30,279**	27,744	548	1,115	—	29,407
Other personal	**2,600**	**49**	**74**	**—**	**2,723**	2,550	63	91	—	2,704
Property and construction	**452**	**6,166**	**1,999**	**—**	**8,617**	636	4,800	1,924	—	7,360
Non-property business	**3,026**	**12,177**	**4,145**	**15**	**19,363**	3,225	10,351	5,090	13	18,679
Total	**34,842**	**18,920**	**7,205**	**15**	**60,982**	34,155	15,762	8,220	13	58,150
Analysed by internal credit ratings(1)										
Strong	**24,294**	**12,813**	**4,763**	**—**	**41,870**	23,406	9,578	4,436	—	37,420
Satisfactory	**7,654**	**4,023**	**1,448**	**15**	**13,140**	6,888	4,010	2,335	13	13,246
Total strong/satisfactory	**31,948**	**16,836**	**6,211**	**15**	**55,010**	30,294	13,588	6,771	13	50,666
Criticised watch	**1,241**	**496**	**203**	**—**	**1,940**	1,389	449	296	—	2,134
Criticised recovery	**431**	**1,178**	**405**	**—**	**2,014**	567	1,309	518	—	2,394
Total criticised	**1,672**	**1,674**	**608**	**—**	**3,954**	1,956	1,758	814	—	4,528
Non-performing	**1,222**	**410**	**386**	**—**	**2,018**	1,905	416	635	—	2,956
Gross carrying amount	**34,842**	**18,920**	**7,205**	**15**	**60,982**	34,155	15,762	8,220	13	58,150
Analysed by ECL staging										
Stage 1	**31,805**	**15,317**	**5,725**	**15**	**52,862**	30,135	11,985	6,261	13	48,394
Stage 2	**1,749**	**3,193**	**1,094**	**—**	**6,036**	2,083	3,361	1,324	—	6,768
Stage 3	**1,201**	**410**	**386**	**—**	**1,997**	1,834	416	635	—	2,885
POCI	**87**	**—**	**—**	**—**	**87**	103	—	—	—	103
Total	**34,842**	**18,920**	**7,205**	**15**	**60,982**	34,155	15,762	8,220	13	58,150
ECL allowance – statement of financial position										
Stage 1	**88**	**132**	**43**	**—**	**263**	120	79	37	—	236
Stage 2	**112**	**440**	**94**	**—**	**646**	138	465	97	—	700
Stage 3	**468**	**133**	**99**	**—**	**700**	722	75	121	—	918
POCI	**9**	**—**	**—**	**—**	**9**	31	—	—	—	31
Total	**677**	**705**	**236**	**—**	**1,618**	1,011	619	255	—	1,885
ECL allowance cover percentage	**%**	**%**	**%**	**%**	**%**	%	%	%	%	%
Stage 1	**0.3**	**0.9**	**0.8**	**—**	**0.5**	0.4	0.7	0.6	—	0.5
Stage 2	**6.4**	**13.8**	**8.6**	**—**	**10.7**	6.6	13.8	7.4	—	10.3
Stage 3	**39.0**	**32.4**	**25.6**	**—**	**35.1**	39.4	18.2	19.0	—	31.8
POCI	**10.7**	**—**	**—**	**—**	**10.7**	29.9	—	—	—	29.9
Income statement	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m	€ m
Net remeasurement of ECL allowance	**(101)**	**96**	**55**	**—**	**50**	(15)	(131)	(12)	—	(158)
Recoveries of amounts previously written-off	**(38)**	**(3)**	**(4)**	**—**	**(45)**	(69)	(2)	(4)	—	(75)
Net credit impairment (writeback)/charge	**(139)**	**93**	**51**	**—**	**5**	(84)	(133)	(16)	—	(233)
	%	**%**	**%**	**%**	**%**	%	%	%	%	%
Net credit impairment (writeback)/charge on average loans	**(0.41)**	**0.54**	**0.67**	**—**	**0.01**	(0.24)	(0.87)	(0.19)	—	(0.40)

(1) Further analysis of internal credit grade profile by ECL staging is set out on pages 158 and 159.

2.1 Credit risk – Credit profile of the loan portfolio

The following table analyses loans and advances to customers at FVTPL by segment and internal credit ratings at 31 December 2022 and 2021:

FVTPL

	2022					2021				
	Retail Banking	**Capital Markets**	**AIB UK**	**Group**	**Total**	Retail Banking	Capital Markets	AIB UK	Group	Total
Carrying amount	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m	€ m
Property and construction	**—**	**226**	**—**	**—**	**226**	—	243	—	—	243
Non-property business	**—**	**23**	**—**	**—**	**23**	—	—	—	—	—
Total	**—**	**249**	**—**	**—**	**249**	—	243	—	—	243
Analysed by internal credit ratings										
Strong	**—**	**96**	**—**	**—**	**96**	—	—	—	—	—
Satisfactory	**—**	**—**	**—**	**—**	**—**	—	74	—	—	74
Total strong/satisfactory	**—**	**96**	**—**	**—**	**96**	—	74	—	—	74
Total criticised	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—
Non-performing	**—**	**153**	**—**	**—**	**153**	—	169	—	—	169
Total	**—**	**249**	**—**	**—**	**249**	—	243	—	—	243

Gross loans and advances to customers

Total gross loans and advances to customers increased by € 2.8 billion in the year to 31 December 2022. Of the total portfolio of € 61.2 billion, € 61.0 billion is measured at amortised cost with the remaining € 0.2 billion being measured at fair value through profit or loss. The increase in the year was influenced by the acquisition of the Ulster Bank corporate and commercial loan portfolio, of which € 2.1 billion has been acquired at 31 December 2022. New lending activity also compares favourably to last year increasing by € 2.2 billion or 22% to € 12.6 billion (2021: € 10.4 billion). New lending in Retail Banking accounted for € 6.5 billion and largely related to new mortgage lending (€ 4.5 billion) while Capital Markets accounted for € 4.7 billion which predominately related to real estate finance and corporate lending. Overall, from a segment perspective, Capital Markets increased by € 3.2 billion, predominately in the non-property business and property and construction asset classes due to the Ulster Bank portfolio acquisition. Retail Banking increased by € 0.6 billion due to strong mortgage lending, however these increases in Retail Banking and Capital Markets were offset by a € 1.0 billion reduction in AIB UK due to deleveraging activity following the Group's decision to exit the SME market in Great Britain.

Of the total loans to customers of € 61.2 billion, € 55.1 billion or 90% are rated as either 'strong' or 'satisfactory' which is an increase of € 4.3 billion (2021: € 50.8 billion or 87%). This increase was evident across all asset classes as a result of new lending but was also influenced by the Ulster Bank portfolio acquisition. The 'criticised' classification includes 'criticised watch' of € 1.9 billion and 'criticised recovery' of € 2.0 billion, the total of which has decreased by € 0.6 billion in the year. The 'criticised recovery' portfolio decreased by € 0.4 billion and the 'criticised watch' portfolio decreased by € 0.2 billion. The total performing book has increased by € 3.8 billion to € 59.1 billion or 96% of gross loans and advances to customers (2021: € 55.3 billion or 95%).

The credit quality of the portfolio has remained stable during the year.

Stage 2 loans have decreased by € 0.8 billion to € 6.0 billion as Stage 1 loans increased by € 4.5 billion to € 52.9 billion. The reduction in Stage 2 loans was driven by redemptions/repayments as the non-property portfolio and the mortgage portfolio, both decreased by € 0.5 billion and € 0.3 billion respectively.

Stage 3 loans have decreased by € 0.9 billion to € 2.0 billion. The decrease was primarily due to the sales of non-performing loan portfolios completed during the year which accounted for € 0.5 billion. Net transfers to Stage 3 accounted for € 0.4 billion and were offset by redemptions/repayments net of interest credited of € 0.6 billion. Transfers to Stage 3 in the year predominately related to cases in the non-property portfolio (€ 0.3 billion).

The characteristics of each stage including the Group's approach to identifying significant increase in credit risk are outlined on pages 140 and 141. This incorporates additional forward looking information including the Group's macroeconomic forecasts in addition to the quantitative and qualitative information utilised in determining the internal credit ratings.

2.1 Credit risk – Credit profile of the loan portfolio

Non-performing loans

The table below sets out the Group's non-performing loans and advances to customers by asset class and by time in default at 31 December 2022 and 2021:

					31 December 2022
	Residential mortgages	**Other personal**	**Property and construction**	**Non-property business**	**Total**
Non-performing loans	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
At amortised cost	**657**	**180**	**406**	**775**	**2,018**
At FVTPL	**—**	**—**	**153**	**—**	**153**
Total non-performing loans and advances to customers	**657**	**180**	**559**	**775**	**2,171**
Non-performing loans as a % of total loans and advances to customers	**2.2 %**	**6.6 %**	**6.3 %**	**4.0 %**	**3.5 %**
ECL allowance as a % of non-performing loans and advances to customers at amortised cost	**31 %**	**64 %**	**29 %**	**35 %**	**35 %**
Split of non-performing loans and advances by time in default					
Legacy/Pre 31 December 2018	***155***	***11***	***38***	***36***	***240***
Non Legacy/Post 31 December 2018	***502***	***169***	***521***	***739***	***1,931***
	657	***180***	***559***	***775***	***2,171***

					31 December 2021
	Residential mortgages	Other personal	Property and construction	Non-property business	Total
Non-performing loans	€ m	€ m	€ m	€ m	€ m
At amortised cost	991	247	628	1,090	2,956
At FVTPL	—	—	169	—	169
Total non-performing loans and advances to customers	991	247	797	1,090	3,125
Non-performing loans as a % of total loans and advances to customers	3.4 %	9.1 %	10.5 %	5.8 %	5.4 %
ECL allowance as a % of non-performing loans and advances to customers at amortised cost	30 %	64 %	28 %	29 %	32 %
Split of non-performing loans and advances by time in default					
Legacy/Pre 31 December 2018	*499*	*71*	*161*	*151*	*882*
Non Legacy/Post 31 December 2018	*492*	*176*	*636*	*939*	*2,243*
	991	*247*	*797*	*1,090*	*3,125*

Total Group non-performing loans have decreased by € 0.9 billion or 31% to € 2.2 billion in the year (2021: € 3.1 billion). The decrease reflects the € 0.5 billion sale of non-performing loan portfolios completed during the year and other net underlying decreases of € 0.4 billion to non-performing loans. The total Group non-performing loans portfolio consists of € 2.0 billion in loans and advances to customers measured at amortised cost together with € 0.2 billion of loans measured at FVTPL. The ECL allowance cover rate on non-performing loans (at amortised cost) has increased to 35% in the year (2021: 32%). The increase predominately relates to the non-legacy property and non-property business exposures reflecting the uncertain economic backdrop. Non-performing loans as a percentage of total loans and advances to customers is 3.5% compared to 5.4% at 31 December 2021.

Exposures that entered into default prior to 31 December 2018 amount to € 0.2 billion or 0.4% of total loans and advances to customers (2021: € 0.9 billion or 1.5%) and are classified as legacy. The reduction in the year is due to the non-performing loan portfolio sales and cures. The remaining balances relate to exposures which may form part of alternative recovery strategies.

Exposures that have defaulted after 31 December 2018 amount to € 1.9 billion or 3.1% of total loans and advances to customers (2021: € 2.2 billion or 3.8%) and are classified as non-legacy. These exposures were largely impacted by COVID-19 and spread across all asset classes, however as economic conditions improved, this has led to a € 0.3 billion reduction in the year. The non-property business portfolio (€ 0.7 billion) continues to be the largest impacted sector within this cohort.

2.1 Credit risk – Credit profile of the loan portfolio

ECL allowance

The ECL allowance on loans and advances to customers has decreased by € 0.3 billion to € 1.6 billion in the year. The decrease was predominately in Stage 3 which reduced by € 0.2 billion due to the sales of non-performing loan portfolios completed throughout the year. The total ECL cover rate has decreased from 3.2% at 31 December 2021 to 2.7% at 31 December 2022.

Income statement

The table below analyses the key components of the income statement for loans and advances to customers at 31 December 2022 and 2021:

Amortised cost					**2022**					2021
	Residential mortgages	**Other personal**	**Property and construction**	**Non-property business**	**Total**	Residential mortgages	Other personal	Property and construction	Non-property business	Total
Income Statement	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m	€ m
Net stage transfers	**(14)**	**40**	**24**	**(13)**	**37**	10	23	2	44	79
Net remeasurement	**10**	**—**	**(25)**	**9**	**(6)**	(48)	(18)	(45)	(123)	(234)
New loans originated/topups	**3**	**11**	**23**	**29**	**66**	3	12	29	18	62
Redemptions/repayments	**(4)**	**(3)**	**(22)**	**(64)**	**(93)**	(5)	(4)	(24)	(35)	(68)
Impact of credit or economic risk parameters	**5**	**(8)**	**(28)**	**—**	**(31)**	(59)	(7)	(35)	(31)	(132)
Impact of model and overlay changes	**(5)**	**(18)**	**78**	**22**	**77**	44	4	20	67	135
Total net remeasurement of ECL allowance(1)	**(5)**	**22**	**50**	**(17)**	**50**	(55)	10	(53)	(60)	(158)
Recoveries of amounts previously written-off	**(15)**	**(5)**	**(12)**	**(13)**	**(45)**	(25)	(15)	(19)	(16)	(75)
Net Credit impairment charge / (writeback)	**(20)**	**17**	**38**	**(30)**	**5**	(80)	(5)	(72)	(76)	(233)

(1) The total net remeasurement of ECL allowance charge of € 50 million includes the impact of the Ulster Bank portfolio acquired during the year which resulted in a net charge of € 39 million.

There was a € 5 million net credit impairment charge in the year to 31 December 2022 which comprised a net remeasurement of ECL allowance charge of € 50 million and recoveries of amounts previously written-off of € 45 million (2021: € 233 million writeback comprising a net remeasurement writeback of € 158 million and € 75 million of recoveries).

The key drivers of the net remeasurement of ECL allowance charge of € 50 million consist of the following components and activity:

- Credit quality remained relatively stable during the year with a € 37 million charge due to net stage movements predominantly within the other personal and property and construction sectors. Redemption and repayment activity continues to occur across all stages but predominantly within Stage 2 with a € 93 million writeback driven by loans that fully repaid. New loans originated have resulted in a € 66 million charge. Further details on the ECL allowance movements are outlined on pages 178 to 184.
- Within the IFRS 9 models, € 31 million ECL writeback has been observed due to macroeconomic factors. This is predominantly due to improvements in the ROI unemployment rate (versus previously forecasted). Further details on the macroeconomic scenarios and weightings are outlined on page 144 to 148.
- However, to reflect the current uncertain economic environment and insensitivity within the IFRS 9 models to certain macroeconomic scenarios such as inflation and interest rate changes, additional ECLs have been taken to address these increased risks through the use of post model adjustments resulting in a net charge of € 77 million during the year. Further details on post model adjustments are outlined on pages 150 and 151.

2.1 Credit risk – Credit profile of the loan portfolio

Internal credit grade profile by ECL staging

The table below analyses the internal credit grading profile by ECL staging for loans and advances to customers at 31 December 2022 and 2021:

Amortised cost

					2022*					2021*
	Stage 1 € m	**Stage 2 € m**	**Stage 3 € m**	**POCI € m**	**Total € m**	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Total										
Strong	**40,708**	**1,159**	**—**	**3**	**41,870**	36,521	895	—	4	37,420
Satisfactory	**11,365**	**1,772**	**—**	**3**	**13,140**	11,023	2,220	—	3	13,246
Total strong/satisfactory	**52,073**	**2,931**	**—**	**6**	**55,010**	47,544	3,115	—	7	50,666
Criticised watch	**668**	**1,271**	**—**	**1**	**1,940**	755	1,377	—	2	2,134
Criticised recovery	**119**	**1,834**	**—**	**61**	**2,014**	93	2,276	—	25	2,394
Total criticised	**787**	**3,105**	**—**	**62**	**3,954**	848	3,653	—	27	4,528
Non-performing	**2**	**—**	**1,997**	**19**	**2,018**	2	—	2,885	69	2,956
Gross carrying amount	**52,862**	**6,036**	**1,997**	**87**	**60,982**	48,394	6,768	2,885	103	58,150
ECL allowance	**(263)**	**(646)**	**(700)**	**(9)**	**(1,618)**	(236)	(700)	(918)	(31)	(1,885)
Carrying amount	**52,599**	**5,390**	**1,297**	**78**	**59,364**	48,158	6,068	1,967	72	56,265
Analysis by asset class										
Residential mortgages										
Strong	**23,104**	**206**	**—**	**3**	**23,313**	22,071	306	—	4	22,381
Satisfactory	**4,950**	**136**	**—**	**3**	**5,089**	4,464	192	—	3	4,659
Total strong/satisfactory	**28,054**	**342**	**—**	**6**	**28,402**	26,535	498	—	7	27,040
Criticised watch	**340**	**570**	**—**	**1**	**911**	395	549	—	2	946
Criticised recovery	**2**	**246**	**—**	**61**	**309**	6	399	—	25	430
Total criticised	**342**	**816**	**—**	**62**	**1,220**	401	948	—	27	1,376
Non-performing	**—**	**—**	**638**	**19**	**657**	1	—	921	69	991
Gross carrying amount	**28,396**	**1,158**	**638**	**87**	**30,279**	26,937	1,446	921	103	29,407
ECL allowance	**(40)**	**(38)**	**(196)**	**(9)**	**(283)**	(34)	(41)	(276)	(31)	(382)
Carrying amount	**28,356**	**1,120**	**442**	**78**	**29,996**	26,903	1,405	645	72	29,025
Other personal										
Strong	**1,245**	**66**	**—**	**—**	**1,311**	1,259	34	—	—	1,293
Satisfactory	**941**	**110**	**—**	**—**	**1,051**	913	89	—	—	1,002
Total strong/satisfactory	**2,186**	**176**	**—**	**—**	**2,362**	2,172	123	—	—	2,295
Criticised watch	**87**	**79**	**—**	**—**	**166**	65	74	—	—	139
Criticised recovery	**—**	**15**	**—**	**—**	**15**	1	22	—	—	23
Total criticised	**87**	**94**	**—**	**—**	**181**	66	96	—	—	162
Non-performing	**1**	**—**	**179**	**—**	**180**	—	—	247	—	247
Gross carrying amount	**2,274**	**270**	**179**	**—**	**2,723**	2,238	219	247	—	2,704
ECL allowance	**(24)**	**(37)**	**(116)**	**—**	**(177)**	(30)	(33)	(159)	—	(222)
Carrying amount	**2,250**	**233**	**63**	**—**	**2,546**	2,208	186	88	—	2,482
Property and construction										
Strong	**5,404**	**721**	**—**	**—**	**6,125**	3,948	413	—	—	4,361
Satisfactory	**1,341**	**374**	**—**	**—**	**1,715**	1,261	613	—	—	1,874
Total strong/satisfactory	**6,745**	**1,095**	**—**	**—**	**7,840**	5,209	1,026	—	—	6,235
Criticised watch	**56**	**56**	**—**	**—**	**112**	58	143	—	—	201
Criticised recovery	**19**	**240**	**—**	**—**	**259**	79	217	—	—	296
Total criticised	**75**	**296**	**—**	**—**	**371**	137	360	—	—	497
Non-performing	**—**	**—**	**406**	**—**	**406**	—	—	628	—	628
Gross carrying amount	**6,820**	**1,391**	**406**	**—**	**8,617**	5,346	1,386	628	—	7,360
ECL allowance	**(84)**	**(117)**	**(119)**	**—**	**(320)**	(50)	(91)	(172)	—	(313)
Carrying amount	**6,736**	**1,274**	**287**	**—**	**8,297**	5,296	1,295	456	—	7,047

*Forms an integral part of the audited financial statements

2.1 Credit risk – Credit profile of the loan portfolio

Internal credit grade profile by ECL staging continued

					2022*					2021*
	Stage 1 € m	**Stage 2 € m**	**Stage 3 € m**	**POCI € m**	**Total € m**	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
Non-property business										
Strong	**10,955**	**166**	**—**	**—**	**11,121**	9,243	142	—	—	9,385
Satisfactory	**4,133**	**1,152**	**—**	**—**	**5,285**	4,385	1,326	—	—	5,711
Total strong/satisfactory	**15,088**	**1,318**	**—**	**—**	**16,406**	13,628	1,468	—	—	15,096
Criticised watch	**185**	**566**	**—**	**—**	**751**	237	611	—	—	848
Criticised recovery	**98**	**1,333**	**—**	**—**	**1,431**	7	1,638	—	—	1,645
Total criticised	**283**	**1,899**	**—**	**—**	**2,182**	244	2,249	—	—	2,493
Non-performing	**1**	**—**	**774**	**—**	**775**	1	—	1,089	—	1,090
Gross carrying amount	**15,372**	**3,217**	**774**	**—**	**19,363**	13,873	3,717	1,089	—	18,679
ECL allowance	**(115)**	**(454)**	**(269)**	**—**	**(838)**	(122)	(535)	(311)	—	(968)
Carrying amount	**15,257**	**2,763**	**505**	**—**	**18,525**	13,751	3,182	778	—	17,711

Credit exposure by midpoint PD grade

The below table represents the credit risk profile for loans and advances to customers at amortised cost via the mapping of credit risk management midpoint PD grades at 31 December 2022 and 2021. The 'internal credit grading profile by ECL staging' table above includes qualitative factors such as financial distress and arrears (in addition to PD to prioritise credit risk management activity) which the midpoint PD table below does not reflect.

							2022					2021
Quality Code	Lower Bound PD	Upper Bound PD	**Stage 1 € m**	**Stage 2 € m**	**Stage 3 € m**	**POCI € m**	**Total € m**	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
1 - 3	0.00%	1.23%	**44,907**	**1,623**	**—**	**39**	**46,569**	40,838	1,340	—	18	42,196
4 - 7	1.23%	6.94%	**7,375**	**1,424**	**—**	**7**	**8,806**	6,951	1,929	—	5	8,885
8 - 10	6.94%	99.99%	**578**	**2,989**	**—**	**22**	**3,589**	603	3,499	—	11	4,113
11	100.00%	100.00%	**2**	**—**	**1,997**	**19**	**2,018**	2	—	2,885	69	2,956
Gross carrying amount			**52,862**	**6,036**	**1,997**	**87**	**60,982**	48,394	6,768	2,885	103	58,150

At 31 December 2022, 91% of the portfolio is in quality codes 1 to 7 which are typically strong/satisfactory (2021: 88%), 6% of the portfolio is in quality codes 8 to 10 which are typically criticised (2021: 7%) and the final 3% in quality code 11 is in default (2021: 5%).

IFRS 9 Stage 1 and Stage 2 classification is not dependent solely on the absolute probability of default but includes perceived significant increase in credit risk (SICR), including relative movement in IFRS 9 probability of default since initial recognition. There is therefore no direct relationship between internal PD grades and IFRS 9 stage classification.

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2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

Asset class summary – key points:

- The **residential mortgage** portfolio has increased by € 0.9 billion in the year to € 30.3 billion driven by strong new lending. The staging composition has improved in the year as ECL stock reduced from € 0.4 billion to € 0.3 billion resulting in ECL cover of 0.9% (2021: 1.3%). There was a € 20 million net credit impairment writeback in the year (2021: € 80 million writeback).
- The **other personal** portfolio has remained unchanged in the year at € 2.7 billion. New lending activity throughout the year was offset against repayments. Stage composition has improved slightly in the year and total ECL cover reduced to 6.5% (2021: 8.2%). There was a net credit impairment charge of € 17 million for the year (2021: € 5 million writeback).
- The **property and construction** portfolio has increased by € 1.2 billion in the year to € 8.8 billion, due to new lending and the Ulster Bank portfolio acquisition. The staging composition of the portfolio has improved in the year with the increase in Stage 1 also due to the Ulster Bank portfolio acquisition. Total ECL cover has reduced by 0.6% to 3.7% (2021: 4.3%). There was a € 38 million net credit impairment charge in the year (2021: € 72 million writeback).
- The **non-property** portfolio has increased by € 0.7 billion in the year to € 19.4 billion, due to new lending and the Ulster Bank portfolio acquisition, however this was slightly offset by deleveraging activity following the Group's decision to exit the SME market in Great Britain. The staging composition of the portfolio has improved in the year as Stage 2 and Stage 3 loans have reduced by € 0.5 and € 0.3 billion respectively. Total ECL cover has reduced by 0.9% to 4.3% (2021: 5.2%). There was a € 30 million net credit impairment writeback in the year (2021: € 76 million writeback).

Loans and advances to customers – Residential mortgages

Residential mortgages amounted to € 30.3 billion at 31 December 2022, with the majority (97%) relating to residential mortgages in the Republic of Ireland and the remainder relating to the United Kingdom. This compares to € 29.4 billion at 31 December 2021, of which 96% related to residential mortgages in the Republic of Ireland. The split of the residential mortgage portfolio was owner-occupier € 28.9 billion and buy-to-let € 1.4 billion (2021: owner-occupier € 27.6 billion and buy-to-let € 1.8 billion).

Income statement

There was a € 20 million net credit impairment writeback in the year to 31 December 2022 compared to a € 80 million writeback in 2021. This comprises a net remeasurement of ECL allowance writeback of € 5 million and recoveries of previously written-off loans of € 15 million.

The key drivers of the net remeasurement of ECL allowance writeback of € 5 million consist of the following components and activity:

- € 5 million writeback driven by net migration from Stage 2 to Stage 1 reflecting the underlying improved credit quality.
- € 5 million charge as a result of the updated macroeconomic scenarios and weightings reflecting the higher downside risk.
- Post model adjustments resulted in a € 5 million writeback. In order to reflect the current uncertain economic environment, additional ECLs have been taken to address these increased risks through the use of post model adjustments which resulted in a € 43 million charge during the year. However, this charge was offset by a € 22 million writeback relating to the NPE resolution post model adjustment following the portfolio sale which occurred during year and a further € 18 million writeback was due to COVID-19 post model adjustment releases. Further details on post model adjustments are outlined on pages 150 and 151.

At 31 December 2022, the ECL allowance for the Group's residential mortgage portfolio is 0.9% (2021: 1.3%). For the Stage 3 element of the Group's residential mortgage portfolio, € 0.2 billion of ECLs are held providing cover of 31% (2021: € 0.3 billion and 30% respectively).

Residential mortgages – page 161

- Residential mortgage portfolio at amortised cost by segment, internal credit ratings and ECL staging

Republic of Ireland residential mortgages – pages 162 to 164

- By ECL staging
- An age profile of the Republic of Ireland residential mortgage portfolio by ECL staging.

Residual debt, which is now unsecured following the disposal of property on which the residential mortgage was secured, is included in the residential mortgage portfolio and as such, is included in the tables within this section.

2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Residential mortgages continued

The following table analyses the residential mortgage portfolio at amortised cost by segment, internal credit ratings and ECL staging at 31 December 2022 and 2021:

					2022*					2021*
	Retail Banking	**Capital Markets**	**AIB UK**	**Group**	**Total**	Retail Banking	Capital Markets	AIB UK	Group	Total
Gross carrying amount	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m	€ m
Owner occupier	**27,526**	**429**	**928**	**—**	**28,883**	26,181	429	1,038	—	27,648
Buy-to-let	**1,238**	**99**	**59**	**—**	**1,396**	1,563	119	77	—	1,759
Total	**28,764**	**528**	**987**	**—**	**30,279**	27,744	548	1,115	—	29,407
Analysed by internal credit ratings										
Strong	**22,151**	**343**	**819**	**—**	**23,313**	21,337	352	692	—	22,381
Satisfactory	**4,832**	**168**	**89**	**—**	**5,089**	4,165	175	319	—	4,659
Total strong/satisfactory	**26,983**	**511**	**908**	**—**	**28,402**	25,502	527	1,011	—	27,040
Criticised watch	**865**	**9**	**37**	**—**	**911**	889	12	45	—	946
Criticised recovery	**303**	**2**	**4**	**—**	**309**	415	5	10	—	430
Total criticised	**1,168**	**11**	**41**	**—**	**1,220**	1,304	17	55	—	1,376
Non-performing	**613**	**6**	**38**	**—**	**657**	938	4	49	—	991
Gross carrying amount	**28,764**	**528**	**987**	**—**	**30,279**	27,744	548	1,115	—	29,407
Analysed by ECL staging										
Stage 1	**26,976**	**496**	**924**	**—**	**28,396**	25,393	511	1,033	—	26,937
Stage 2	**1,107**	**26**	**25**	**—**	**1,158**	1,380	33	33	—	1,446
Stage 3	**594**	**6**	**38**	**—**	**638**	868	4	49	—	921
POCI	**87**	**—**	**—**	**—**	**87**	103	—	—	—	103
Total	**28,764**	**528**	**987**	**—**	**30,279**	27,744	548	1,115	—	29,407
ECL allowance – statement of financial position										
Stage 1	**40**	**—**	**—**	**—**	**40**	34	—	—	—	34
Stage 2	**37**	**—**	**1**	**—**	**38**	40	1	—	—	41
Stage 3	**191**	**1**	**4**	**—**	**196**	270	—	6	—	276
POCI	**9**	**—**	**—**	**—**	**9**	31	—	—	—	31
Total	**277**	**1**	**5**	**—**	**283**	375	1	6	—	382
ECL allowance cover percentage	**%**	**%**	**%**	**%**	**%**	%	%	%	%	%
Stage 1	**0.1**	**—**	**—**	**—**	**0.1**	0.1	—	—	—	0.1
Stage 2	**3.3**	**—**	**0.9**	**—**	**3.2**	2.9	1.8	—	—	2.8
Stage 3	**32.3**	**12.8**	**10.1**	**—**	**30.8**	31.1	—	10.9	—	29.9
POCI	**10.6**	**—**	**—**	**—**	**10.6**	29.9	—	—	—	29.9
Income statement	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m	€ m
Net remeasurement of ECL allowance	**(4)**	**—**	**(1)**	**—**	**(5)**	(42)	(5)	(8)	—	(55)
Recoveries of amounts previously written-off	**(14)**	**—**	**(1)**	**—**	**(15)**	(24)	—	(1)	—	(25)
Net credit impairment (writeback)/charge	**(18)**	**—**	**(2)**	**—**	**(20)**	(66)	(5)	(9)	—	(80)
	%	**%**	**%**	**%**	**%**	%	%	%	%	%
Net credit impairment (writeback)/charge on average loans	**(0.07)**	**0.07**	**(0.18)**	**—**	**(0.07)**	(0.24)	(0.96)	(0.76)	—	(0.27)

*Forms an integral part of the audited financial statements

2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Republic of Ireland residential mortgages

The following table analyses the Republic of Ireland residential mortgage portfolio at amortised cost by ECL staging at 31 December 2022 and 2021:

	2022*			2021*		
	Owner-occupier	Buy-to-let	Total	Owner-occupier	Buy-to-let	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Gross carrying amount	**27,955**	**1,337**	**29,292**	26,610	1,682	28,292
Analysed as to ECL staging						
Stage 1	**26,321**	**1,151**	**27,472**	24,572	1,332	25,904
Stage 2	**1,024**	**109**	**1,133**	1,226	187	1,413
Stage 3	**526**	**74**	**600**	714	158	872
POCI	**84**	**3**	**87**	98	5	103
Total	**27,955**	**1,337**	**29,292**	26,610	1,682	28,292
ECL allowance – statement of financial position						
Stage 1	**39**	**1**	**40**	32	2	34
Stage 2	**35**	**2**	**37**	35	6	41
Stage 3	**172**	**20**	**192**	203	67	270
POCI	**8**	**1**	**9**	28	3	31
Total	**254**	**24**	**278**	298	78	376
Republic of Ireland residential mortgages at amortised cost	**27,701**	**1,313**	**29,014**	26,312	1,604	27,916
ECL allowance cover percentage	**%**	**%**	**%**	%	%	%
Stage 1	**0.1**	**0.1**	**0.1**	0.1	0.1	0.1
Stage 2	**3.5**	**1.7**	**3.3**	2.8	3.2	2.9
Stage 3	**32.7**	**27.9**	**32.1**	28.4	42.6	30.9
POCI	**9.9**	**38.4**	**10.6**	28.8	51.7	29.9
Income statement	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Net remeasurement of ECL allowance	**26**	**(30)**	**(4)**	(37)	(10)	(47)
Recoveries of amounts previously written-off	**(10)**	**(4)**	**(14)**	(16)	(8)	(24)
Net credit impairment (writeback)/charge	**16**	**(34)**	**(18)**	(53)	(18)	(71)
	%	**%**	**%**	%	%	%
Net credit impairment (writeback)/charge on average loans	**0.06**	**(2.25)**	**(0.06)**	—	(0.01)	—

Residential mortgages in Ireland amounted to € 29.3 billion at 31 December 2022 compared to € 28.3 billion at 31 December 2021. The portfolio has increased by € 1.0 billion in the year. Total drawdowns during the year were € 4.5 billion (2021: € 3.0 billion), of which 99% were to owner-occupiers. The weighted average indexed loan-to-value of the stock of residential mortgages at 31 December 2022 was 48% (2021: 50%) and Stage 3 residential mortgages was 46% (2021: 54%).

The split of the Irish residential mortgage portfolio is 95% owner-occupier and 5% buy-to-let and comprises € 17.6 billion (60%) on fixed rate, € 6.8 billion (23%) on variable rate and € 4.9 billion (17%) on tracker rate mortgages. (2021: € 11.3 billion (40%) on fixed rate, € 10.9 billion (38%) on variable rate and € 6.1 billion (22%) tracker rate mortgages).

Non-performing loans decreased from € 0.9 billion at 31 December 2021 to € 0.6 billion at 31 December 2022, primarily due to the sale of a non-performing loan portfolio in long term default which was completed during the year.

Residential mortgage arrears

Total loans in arrears (including non-performing loans) by value decreased by 24% during the year, a decrease of 16% in the owner-occupier portfolio and a decrease of 58% in the buy-to-let portfolio. This was primarily due to the sale of a non-performing loan portfolio. The number of loans in arrears (based on number of accounts) greater than 90 days were 1.2% at 31 December 2022 and remains below the industry average of 5.0%(1). For the owner-occupier portfolio, the number of loans in arrears greater than 90 days at 1.1% were below the industry average of 4.3%(1). For the buy-to-let portfolio, loans in arrears greater than 90 days at 2.2% were below the industry average of 11.4%(1).

(1) Source: Central Bank of Ireland ("CBI") Residential Mortgage Arrears and Repossessions Statistics published 16 December 2022 based on number of accounts as at 30 September 2022.

Forbearance

Irish residential mortgages subject to forbearance measures decreased by € 0.5 billion from € 1.2 billion at 31 December 2021 to € 0.7 billion at 31 December 2022. The decrease in the forbearance portfolio was also partially due to the sale of a non-performing loan portfolio. Details of forbearance measures are set out on pages 186 to 187.

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2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Republic of Ireland residential mortgages continued

Indexed loan-to-value ratios of Republic of Ireland residential mortgages

The following table profiles the Republic of Ireland residential mortgage portfolio by the indexed loan-to-value ratios at 31 December 2022 and 2021:

	2022*					2021*				
	At amortised cost					At amortised cost				
	Stage 1 € m	**Stage 2 € m**	**Stage 3 € m**	**POCI € m**	**Overall total € m**	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Overall total € m
Less than 80%	**25,889**	**1,100**	**565**	**81**	**27,635**	24,771	1,322	739	86	26,918
81-100%	**1,527**	**20**	**21**	**1**	**1,569**	1,058	68	97	10	1,233
100-120%	**22**	**6**	**6**	**—**	**34**	28	9	19	—	56
Greater than 120%	**31**	**6**	**4**	**—**	**41**	42	13	12	—	67
Total with LTVs	**27,469**	**1,132**	**596**	**82**	**29,279**	25,899	1,412	867	96	28,274
Unsecured	**3**	**1**	**4**	**5**	**13**	5	1	5	7	18
Total	**27,472**	**1,133**	**600**	**87**	**29,292**	25,904	1,413	872	103	28,292
Of which:										
Owner occupier										
Less than 80%	**24,760**	**995**	**504**	**80**	**26,339**	23,460	1,158	632	85	25,335
81-100%	**1,514**	**18**	**13**	**1**	**1,546**	1,052	56	60	10	1,178
100-120%	**20**	**5**	**6**	**—**	**31**	24	4	14	—	42
Greater than 120%	**25**	**5**	**2**	**—**	**32**	35	8	6	—	49
Total with LTVs	**26,319**	**1,023**	**525**	**81**	**27,948**	24,571	1,226	712	95	26,604
Unsecured	**2**	**1**	**1**	**3**	**7**	1	—	2	3	6
Total	**26,321**	**1,024**	**526**	**84**	**27,955**	24,572	1,226	714	98	26,610

The weighted average indexed loan-to-value of the stock of residential mortgages at 31 December 2022 was 48% (2021: 50%), new residential mortgages issued during the year was 64% (2021: 67%) and Stage 3 residential mortgages was 46% (2021: 54%).

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*Forms an integral part of the audited financial statements

2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

Republic of Ireland residential mortgages – aged analysis

The following table provides an age profile of the Republic of Ireland residential mortgage portfolio by ECL staging at 31 December 2022 and 2021:

					2022					2021
					At amortised cost					At amortised cost
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Not past due	27,464	1,075	292	79	28,910	25,897	1,363	440	92	27,792
1 – 30 days	8	37	14	1	60	7	27	10	—	44
31 – 60 days	—	12	6	—	18	—	18	13	1	32
61 – 90 days	—	9	9	—	18	—	5	7	1	13
91 – 180 days	—	—	30	1	31	—	—	36	2	38
181 – 365 days	—	—	56	2	58	—	—	65	2	67
Over 365 days	—	—	193	4	197	—	—	301	5	306
Total gross carrying amount of residential mortgages	27,472	1,133	600	87	29,292	25,904	1,413	872	103	28,292
ECL allowance	(40)	(37)	(192)	(9)	(278)	(34)	(41)	(270)	(31)	(376)
Carrying value	27,432	1,096	408	78	29,014	25,870	1,372	602	72	27,916
Of which:										
Owner-occupier										
Not past due	26,315	974	248	77	27,614	24,568	1,182	365	89	26,204
1 – 30 days	6	32	12	1	51	4	22	9	—	35
31 – 60 days	—	10	6	—	16	—	17	12	1	30
61 – 90 days	—	8	8	—	16	—	5	7	1	13
91 – 180 days	—	—	29	1	30	—	—	34	2	36
181 – 365 days	—	—	53	1	54	—	—	56	1	57
Over 365 days	—	—	170	4	174	—	—	231	4	235
Total	26,321	1,024	526	84	27,955	24,572	1,226	714	98	26,610

2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Other personal

The following table analyses other personal lending at amortised cost by segment, internal credit ratings and ECL staging at 31 December 2022 and 2021:

					2022*					2021*
	Retail Banking	**Capital Markets**	**AIB UK**	**Group**	**Total**	Retail Banking	Capital Markets	AIB UK	Group	Total
Gross carrying amount	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m	€ m
Credit cards	**644**	**8**	**23**	**—**	**675**	590	6	24	—	620
Loans/overdrafts	**1,956**	**41**	**51**	**—**	**2,048**	1,960	57	67	—	2,084
Total	**2,600**	**49**	**74**	**—**	**2,723**	2,550	63	91	—	2,704
Analysed by internal credit ratings										
Strong	**1,232**	**17**	**62**	**—**	**1,311**	1,208	16	69	—	1,293
Satisfactory	**1,015**	**29**	**7**	**—**	**1,051**	944	42	16	—	1,002
Total strong/satisfactory	**2,247**	**46**	**69**	**—**	**2,362**	2,152	58	85	—	2,295
Criticised watch	**163**	**1**	**2**	**—**	**166**	135	2	2	—	139
Criticised recovery	**14**	**—**	**1**	**—**	**15**	23	—	—	—	23
Total criticised	**177**	**1**	**3**	**—**	**181**	158	2	2	—	162
Non-performing	**176**	**2**	**2**	**—**	**180**	240	3	4	—	247
Gross carrying amount	**2,600**	**49**	**74**	**—**	**2,723**	2,550	63	91	—	2,704
Analysed by ECL staging										
Stage 1	**2,171**	**42**	**61**	**—**	**2,274**	2,102	54	82	—	2,238
Stage 2	**254**	**5**	**11**	**—**	**270**	208	6	5	—	219
Stage 3	**175**	**2**	**2**	**—**	**179**	240	3	4	—	247
POCI	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—
Total	**2,600**	**49**	**74**	**—**	**2,723**	2,550	63	91	—	2,704
ECL allowance – statement of financial position										
Stage 1	**24**	**—**	**—**	**—**	**24**	30	—	—	—	30
Stage 2	**37**	**—**	**—**	**—**	**37**	33	—	—	—	33
Stage 3	**114**	**1**	**1**	**—**	**116**	156	1	2	—	159
POCI	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—
Total	**175**	**1**	**1**	**—**	**177**	219	1	2	—	222
ECL allowance cover percentage	**%**	**%**	**%**	**%**	**%**	%	%	%	%	%
Stage 1	**1.1**	**—**	**—**	**—**	**1.1**	1.4	—	—	—	1.3
Stage 2	**14.4**	**—**	**—**	**—**	**13.6**	16.0	—	—	—	15.4
Stage 3	**65.2**	**24.9**	**52.5**	**—**	**64.6**	65.1	21.7	42.1	—	64.2
POCI	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—
Income statement	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m	€ m
Net remeasurement of ECL allowance	**22**	**—**	**—**	**—**	**22**	12	(2)	—	—	10
Recoveries of amounts previously written-off	**(5)**	**—**	**—**	**—**	**(5)**	(15)	—	—	—	(15)
Net credit impairment (writeback)/charge	**17**	**—**	**—**	**—**	**17**	(3)	(2)	—	—	(5)
	%	**%**	**%**	**%**	**%**	%	%	%	%	%
Net credit impairment (writeback)/charge on average loans	**0.68**	**(1.16)**	**0.60**	**—**	**0.65**	(0.10)	(3.13)	(0.16)	—	(0.16)

*Forms an integral part of the audited financial statements

2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Other personal continued

At 31 December 2022, the other personal lending portfolio of € 2.7 billion comprises € 2.0 billion in loans and overdrafts and € 0.7 billion in credit card facilities (2021: € 2.7 billion, € 2.1 billion and € 0.6 billion respectively). Credit quality of the portfolio improved slightly throughout the year, with 13% categorised as less than satisfactory, of which defaulted loans amounted to € 0.2 billion (2021: 15% and € 0.2 billion).

New lending totalled € 1.0 billion for the year to 31 December 2022 (2021: € 0.9 billion), however this was largely offset by redemptions/repayments.

Stage 3 loans, predominately in Retail Banking decreased by € 68 million in the year. At 31 December 2022, the ECL allowance cover was 7% with Stage 3 cover at 65% (2021: 8% and 64% respectively).

Income statement

There was a net credit impairment charge of € 17 million to the income statement for the year to 31 December 2022 compared to a € 5 million net credit impairment writeback in 2021. This comprises a net remeasurement of ECL allowance charge of € 22 million and recoveries of previously written-off loans of € 5 million.

The key drivers of the net remeasurement of ECL allowance charge of € 22 million consist of the following components and activity:

- There was a € 48 million charge driven predominately by € 40 million downward net stage migration.
- The impact of the updated macroeconomic scenarios and weightings resulted in a € 8 million writeback.
- Post model adjustments resulted in a € 18 million writeback. In order to reflect the current uncertain economic environment, additional ECLs have been taken to address these increased risks through the use of post model adjustments which resulted in a € 11 million charge during the year. However, this charge was offset by a € 21 million writeback relating to the NPE resolution post model adjustment following the portfolio sale which occurred during year and a further € 9 million writeback was due to COVID-19 post model adjustment releases. Further details on post model adjustments are outlined on pages 150 to 151.

The ECL allowance for the portfolio totalled € 0.2 billion providing ECL allowance cover of 7%. For the Stage 3 portfolio, the ECL allowance cover is 65%. (2021: € 0.2 billion, 8% and 64% respectively).

2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Property and construction

The following table analyses property and construction lending at amortised cost by segment, internal credit ratings and ECL staging at 31 December 2022 and 2021:

					2022*					2021*
	Retail Banking	Capital Markets	AIB UK	Group	Total	Retail Banking	Capital Markets	AIB UK	Group	Total
Gross carrying amount	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Investment:										
Commercial investment	184	3,375	653	—	4,212	281	2,907	614	—	3,802
Residential investment	46	1,775	679	—	2,500	89	724	676	—	1,489
Total investment	230	5,150	1,332	—	6,712	370	3,631	1,290	—	5,291
Land and development:										
Commercial development	56	209	53	—	318	106	377	34	—	517
Residential development	26	586	147	—	759	50	606	124	—	780
Total land and development	82	795	200	—	1,077	156	983	158	—	1,297
Contractors	140	88	51	—	279	110	78	115	—	303
Housing associations	—	133	416	—	549	—	108	361	—	469
Total	452	6,166	1,999	—	8,617	636	4,800	1,924	—	7,360
Analysed by internal credit ratings										
Strong	117	4,866	1,142	—	6,125	113	3,187	1,061	—	4,361
Satisfactory	180	816	719	—	1,715	213	994	667	—	1,874
Total strong/satisfactory	297	5,682	1,861	—	7,840	326	4,181	1,728	—	6,235
Criticised watch	33	57	22	—	112	58	98	45	—	201
Criticised recovery	30	196	33	—	259	25	246	25	—	296
Total criticised	63	253	55	—	371	83	344	70	—	497
Non-performing	92	231	83	—	406	227	275	126	—	628
Gross carrying amount	452	6,166	1,999	—	8,617	636	4,800	1,924	—	7,360
Analysed by ECL staging										
Stage 1	284	4,828	1,708	—	6,820	312	3,358	1,676	—	5,346
Stage 2	76	1,107	208	—	1,391	97	1,167	122	—	1,386
Stage 3	92	231	83	—	406	227	275	126	—	628
POCI	—	—	—	—	—	—	—	—	—	—
Total	452	6,166	1,999	—	8,617	636	4,800	1,924	—	7,360
ECL allowance – statement of financial position										
Stage 1	1	65	18	—	84	5	33	12	—	50
Stage 2	6	103	8	—	117	10	77	4	—	91
Stage 3	30	60	29	—	119	107	39	26	—	172
POCI	—	—	—	—	—	—	—	—	—	—
Total	37	228	55	—	320	122	149	42	—	313
ECL allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	0.4	1.3	1.0	—	1.2	1.8	1.0	0.7	—	0.9
Stage 2	7.5	9.3	4.1	—	8.5	10.0	6.6	3.8	—	6.6
Stage 3	32.7	26.1	35.2	—	29.4	47.3	14.4	20.7	—	27.5
POCI	—	—	—	—	—	—	—	—	—	—
Income statement	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net remeasurement of ECL allowance	(53)	77	26	—	50	3	(52)	(4)	—	(53)
Recoveries of amounts previously written-off	(10)	(2)	—	—	(12)	(18)	—	(1)	—	(19)
Net credit impairment (writeback)/charge	(63)	75	26	—	38	(15)	(52)	(5)	—	(72)
	%	%	%	%	%	%	%	%	%	%
Net credit impairment (writeback)/charge on average loans	(11.42)	1.37	1.31	—	0.48	(2.31)	(1.14)	(0.27)	—	(1.00)

*Forms an integral part of the audited financial statements

2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Property and construction continued

The property and construction portfolio consists of € 8.6 billion in loans and advances to customers measured at amortised cost together with € 0.2 billion of loans measured at FVTPL (total € 8.8 billion).

The portfolio measured at amortised cost amounted to 14% of loans and advances to customers and comprised of 78% investment loans (€ 6.7 billion), 12% land and development loans (€ 1.1 billion) and 10% other property and construction loans (€ 0.8 billion). The Capital Markets and AIB UK segments continue to account for the majority of this portfolio at 72% and 23% respectively.

The portfolio measured at amortised cost increased by € 1.2 billion in the year as new lending of € 2.7 billion (2021: € 1.8 billion) was partially offset by redemptions/repayments net of interest credited of € 1.9 billion and disposals of € 0.2 billion. Increase in new lending was predominately in the Capital Markets segment which increased by € 0.7 billion in the year. A further € 0.9 billion increase was due to the Ulster Bank portfolio acquisition. At 31 December 2022, € 7.8 billion of the portfolio was in a strong/satisfactory grade, which is an increase of € 1.6 billion in the year. The level of non-performing loans have reduced by € 0.2 billion in the year to € 0.4 billion.

Property and construction loans measured at FVTPL remained stable at € 226 million (2021: € 243 million).

Income statement

There was a net credit impairment charge of € 38 million to the income statement in the year to 31 December 2022 compared to a € 72 million writeback in 2021. This comprises a net remeasurement of ECL allowance charge of € 50 million and recoveries of previously written-off loans of € 12 million.

The key drivers of the net remeasurement of ECL allowance charge of € 50 million consist of the following components and activity:

- Credit quality remained relatively stable during the year as a € 24 million charge due to net stage movements was offset by a € 25 million writeback due to net remeasurements within stage. New loans originating resulted in a € 23 million charge, however this was also offset by a € 22 million writeback on loans fully repaid.
- Post model adjustments resulted in a € 78 million charge. In order to reflect the current uncertain economic environment, additional ECLs have been taken to address these increased risks through the use of post model adjustments which resulted in a € 64 million charge during the year. In AIB UK, there was also an additional € 20 million charge through the use of post model adjustments driven by the macro economic adjustment to reflect a greater impact within the downside scenarios than that currently observed and to align the ECL outcome to alternative NPE resolution strategies. Further details on post model adjustments are outlined on pages 150 and 151.
- The impact of the updated macroeconomic scenarios and weightings resulted in a € 28 million writeback.

The ECL allowance for the portfolio totalled € 0.3 billion providing ECL allowance cover of 4%. For the Stage 3 portfolio, the ECL allowance cover is 29% (2021: € 0.3 billion, 4% and 28% respectively).

Investment

Investment property loans amounted to € 6.7 billion at 31 December 2022 (2021: € 5.3 billion) of which € 4.2 billion related to commercial investment. The geographic profile of the investment property portfolio is predominately in the Republic of Ireland (€ 4.8 billion) and the United Kingdom (€ 1.4 billion). Commercial Investment in the retail sector, including shopping centres, were adversely impacted by COVID-19 and recovery has been slow due to inflationary pressures on costs, with 44% of the Group's € 1.0 billion exposure to this sector now designated Stage 1. Other commercial investment loans have a stronger asset quality profile with 77% of the Group's € 3.2 billion exposure in Stage 1.

At 31 December 2022, there was a net credit impairment charge of € 57 million to the income statement on the investment property element of the property and construction portfolio (2021: € 78 million writeback).

Land and development

Land and development loans amounted to € 1.1 billion at 31 December 2022 (2021: € 1.3 billion) of which € 0.8 billion related to loans in the Capital Markets segment, € 0.1 billion in the Retail Banking segment and € 0.2 billion in the AIB UK segment. Lending activity in 2022 was aligned to market trends with private rented sector, office and social housing sub sectors accounting for the majority of new lending. Property development exposures remained focused on the residential sector where the imbalance between supply and demand persists. The outlook for the property and construction portfolio is challenging with inflationary pressures, interest rate movements and geopolitical events impacting on market activity and confirming the need for additional vigilance in monitoring at both a portfolio and individual transaction level.

The income statement net credit impairment writeback for the year was € 18 million (2021: € 5 million charge).

2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Non-property business

The following table analyses non-property business lending at amortised cost by segment, internal credit ratings and ECL staging at 31 December 2022 and 2021:

	2022*					2021*				
	Retail Banking	Capital Markets	AIB UK	Group	Total	Retail Banking	Capital Markets	AIB UK	Group	Total
Gross carrying amount	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	1,191	398	67	—	1,656	1,232	351	94	—	1,677
Energy	21	1,395	1,398	—	2,814	21	996	1,197	—	2,214
Manufacturing	166	2,509	189	—	2,864	185	2,109	248	—	2,542
Distribution:										
Hotels	109	1,164	431	—	1,704	146	1,136	806	—	2,088
Licensed premises	134	116	43	—	293	179	135	108	—	422
Retail/wholesale	431	1,185	160	—	1,776	474	1,040	233	—	1,747
Other distribution	89	190	86	—	365	93	195	140	—	428
	763	2,655	720	—	4,138	892	2,506	1,287	—	4,685
Transport	197	1,885	550	—	2,632	212	1,494	503	—	2,209
Financial	10	356	96	15	477	14	359	135	13	521
Other services	678	2,979	1,125	—	4,782	669	2,536	1,626	—	4,831
Total	3,026	12,177	4,145	15	19,363	3,225	10,351	5,090	13	18,679
Analysed by internal credit ratings										
Strong	794	7,587	2,740	—	11,121	748	6,023	2,614	—	9,385
Satisfactory	1,627	3,010	633	15	5,285	1,566	2,799	1,333	13	5,711
Total strong/satisfactory	2,421	10,597	3,373	15	16,406	2,314	8,822	3,947	13	15,096
Criticised watch	180	429	142	—	751	307	337	204	—	848
Criticised recovery	84	980	367	—	1,431	104	1,058	483	—	1,645
Total criticised	264	1,409	509	—	2,182	411	1,395	687	—	2,493
Non-performing	341	171	263	—	775	500	134	456	—	1,090
Gross carrying amount	3,026	12,177	4,145	15	19,363	3,225	10,351	5,090	13	18,679
Analysed by ECL staging										
Stage 1	2,374	9,951	3,032	15	15,372	2,328	8,062	3,470	13	13,873
Stage 2	312	2,055	850	—	3,217	398	2,155	1,164	—	3,717
Stage 3	340	171	263	—	774	499	134	456	—	1,089
POCI	—	—	—	—	—	—	—	—	—	—
Total	3,026	12,177	4,145	15	19,363	3,225	10,351	5,090	13	18,679
ECL allowance – statement of financial position										
Stage 1	23	67	25	—	115	51	46	25	—	122
Stage 2	32	337	85	—	454	55	387	93	—	535
Stage 3	133	71	65	—	269	189	35	87	—	311
POCI	—	—	—	—	—	—	—	—	—	—
Total	188	475	175	—	838	295	468	205	—	968
ECL allowance cover percentage	%	%	%	%	%	%	%	%	%	%
Stage 1	1.0	0.7	0.8	—	0.7	2.2	0.6	0.7	—	0.9
Stage 2	10.3	16.4	10.0	—	14.1	13.9	18.0	7.9	—	14.4
Stage 3	39.1	41.5	24.7	—	34.8	37.9	26.2	19.2	—	28.6
POCI	—	—	—	—	—	—	—	—	—	—
Income statement	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Net remeasurement of ECL allowance	(66)	19	30	—	(17)	12	(72)	—	—	(60)
Recoveries of amounts previously written-off	(9)	(1)	(3)	—	(13)	(12)	(2)	(2)	—	(16)
Net credit impairment (writeback)/charge	(75)	18	27	—	(30)	—	(74)	(2)	—	(76)
	%	%	%	%	%	%	%	%	%	%
Net credit impairment (writeback)/ charge on average loans	(2.42)	0.16	0.58	—	(0.16)	—	(0.72)	(0.04)	—	(0.40)

*Forms an integral part of the audited financial statements

2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Non-property business continued

The non-property business portfolio includes small and medium enterprises ("SMEs") which are reliant on the domestic economies in which they operate. In addition to SMEs, the portfolio also includes exposures to larger corporate and institutional borrowers which are impacted by global economic conditions. The largest geographic concentration of the portfolio exposure is to Irish borrowers (52%) with the UK (26%) and USA (11%) being the other main geographic concentrations.

The portfolio increased by € 0.7 billion to € 19.4 billion in the year to 31 December 2022 (2021: € 18.7 billion). New lending accounted for € 4.3 billion (2021: € 4.5 billion) with a further € 1.2 billion increase due to the Ulster Bank portfolio acquisition which is spread across the majority of sub-sectors. Redemptions/repayments net of interest credited accounted for € 4.3 billion and portfolio disposals resulted in a further reduction of € 0.4 billion. The non-property business portfolio amounted to 32% of total Group loans and advances to customers in the year (2021: 32%).

The impact of COVID-19 on the asset quality of the portfolio has eased with the timing of recovery dependent on sector specific dynamics focused around inflationary pressure on costs. Loans graded as strong/satisfactory improved in the year to 31 December 2022 at 85% (2021: 81%). The value of loans graded less than satisfactory (including defaulted loans) decreased from € 3.6 billion at 31 December 2021 to € 3.0 billion at 31 December 2022. The performing forborne portfolio, seen in the criticised recovery category, decreased by € 0.2 billion to € 1.4 billion in the year (2021: € 1.6 billion).

Additional disclosures on the non-property business portfolio are outlined on page 172.

The following are the key themes within the main sub-sectors of the non-property business portfolio:

- The agriculture sub-sector represents 9% of the portfolio at € 1.7 billion. Overall, the sector has benefited from rising commodity prices. Strong output prices have offset rising feed/fertiliser/fuel costs in most sub-sectors and farm input costs are expected to remain elevated in 2023. This, together with sustainability and associated emissions reduction targets will be key challenges facing the sector in 2023;
- The energy sub-sector comprises 14% of the portfolio at € 2.8 billion. This sub-sector continues to be a strong focus of growth for the Group which reflects the increase of € 0.6 billion in the year. This was driven by new lending to renewable energy initiatives (wind and solar). The sector has proven resilient, benefiting from higher prices and inflation adjustment mechanisms;
- The manufacturing sub-sector comprises 15% of the portfolio at € 2.9 billion. Performance was stable as many operators successfully passed through cost increases or mitigated inflationary pressures through operational efficiencies. However business conditions have weakened in the sector as growth and new business have slowed down in the last quarter of 2022;
- The hotels sub-sector comprises 9% of the portfolio at € 1.7 billion. The sector performed strongly on a 'Revenue per Available Room' basis owing to the release of pent-up demand, a strong events calendar, pass-through of rising costs and reduced supply as rooms are utilised for emergency refugee accommodation. The outlook is however challenging owing to ongoing operational cost inflation (energy, staffing, food and beverage), potential recessionary impact on disposable income and staff availability. Long-term industry dynamics, including return of corporate travel, are uncertain;
- The licensed premises sub-sector comprises 1% of the portfolio at € 0.3 billion. Already in decline, this sector was severely negatively impacted by Government measures to contain COVID-19. Trade has recovered albeit not to the same extent as accommodation and regional differences are evident (e.g. urban versus rural) while facing similar challenges in the hotels sub-sector (inflation, staffing, consumer sentiment);
- The retail/wholesale sub-sector comprises 9% of the portfolio at € 1.8 billion. Grocery retail/wholesalers continue to trade well with many businesses experiencing increases in profitability despite increased costs which are being passed through. Outlook is more challenging for cyclical high discretionary retail which faces challenges including inflation and associated interest rate increases/impact on disposable incomes and continued shift in industry dynamics including the transition of 'bricks and mortar' to online;
- The transport sub-sector comprises 14% of the portfolio at € 2.6 billion and consists primarily of logistic, storage and travel businesses. Cost challenges remain due to border/custom delays, fuel costs, labour (cost and availability) and upgrading to greener fleets. Larger haulage operators benefit from fuel surcharge agreements allowing the efficient pass through of price increases. Demand for logistics and warehousing remains strong following increased online retail purchasing during COVID-19 albeit light and heat cost is a key consideration. The travel sector has rebounded but challenges remain due to inflation and potential recessionary impacts on disposable income;
- The financial sub-sector comprises 2% of the portfolio at € 0.5 billion. This sub-sector is proving resilient; and
- The other services sub-sector comprises 25% of the portfolio at € 4.8 billion, which includes businesses such as solicitors, accounting, audit, tax, computer services, research and development, consultancy, hospitals and nursing homes. Overall, performance within this sub-sector will have been more adversely affected by inflationary pressures.

2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Non-property business continued

Income statement

There was a net credit impairment writeback of € 30 million to the income statement in the year to 31 December 2022 compared to a € 76 million writeback in 2021. This comprises a net remeasurement of ECL allowance writeback of € 17 million and recoveries of previously written-off loans of € 13 million.

The key drivers of the net remeasurement of ECL allowance writeback of € 17 million consist of the following components and activity:

- Credit quality remained stable as a € 39 million writeback was largely due to full repayments of € 64 million which was partially offset by an ECL charge of € 29 million on new loans.
- Post model adjustments resulted in a € 22 million charge. In order to reflect the current uncertain economic environment, additional ECLs have been taken to address these increased risks through the use of post model adjustments which resulted in a € 42 million charge during the year. This was offset by an € 82 million writeback due to the release of COVID-19 post model adjustments. There was also a € 13 million charge relating to the NPE resolution post model adjustment. In AIB UK, there was a further € 56 million charge relating to post model adjustments driven by the macro economic adjustment to reflect a greater impact within the downside scenarios than that currently observed and to align the ECL outcome to alternative NPE resolution strategies. Further details on post model adjustments are outlined on pages 150 and 151.

The ECL allowance for the portfolio totalled € 0.8 billion providing ECL allowance cover of 4%. For the Stage 3 portfolio, the ECL allowance cover is 35% (2021: € 1.0 billion, 5% and 29% respectively).

2.1 Credit risk – Credit profile of the loan portfolio – Asset class analysis

Loans and advances to customers – Non-property business (continued)

Additional disclosures

The following table provides further analyses by industry sector of the non-property business portfolio, by gross carrying amount and ECL allowance at 31 December 2022 and 2021. Given the international profile of the Syndicated & International Finance ("SIF") business, all exposures within this business unit are reported separately.

								2022
	Analysed by ECL stage profile			**Gross carrying amount**	**Analysed by ECL stage profile**			**ECL allowance**
	Stage 1	**Stage 2**	**Stage 3**		**Stage 1**	**Stage 2**	**Stage 3**	
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Agriculture	**1,355**	**228**	**67**	**1,650**	**10**	**18**	**24**	**52**
Energy	**2,626**	**144**	**29**	**2,799**	**14**	**19**	**23**	**56**
Manufacturing	**1,839**	**134**	**67**	**2,040**	**12**	**16**	**24**	**52**
Distribution:								
Hotels	**263**	**1,137**	**221**	**1,621**	**14**	**158**	**40**	**212**
Licensed premises	**86**	**114**	**93**	**293**	**1**	**22**	**31**	**54**
Retail/Wholesale	**1,284**	**213**	**77**	**1,574**	**10**	**24**	**33**	**67**
Other distribution	**188**	**23**	**15**	**226**	**1**	**3**	**7**	**11**
	1,821	**1,487**	**406**	**3,714**	**26**	**207**	**111**	**344**
Transport	**1,814**	**235**	**28**	**2,077**	**8**	**22**	**19**	**49**
Financial	**220**	**3**	**1**	**224**	**2**	**—**	**—**	**2**
Other services	**3,279**	**437**	**140**	**3,856**	**24**	**45**	**55**	**124**
Total	**12,954**	**2,668**	**738**	**16,360**	**96**	**327**	**256**	**679**
SIF	**2,418**	**549**	**36**	**3,003**	**19**	**127**	**13**	**159**
Total	**15,372**	**3,217**	**774**	**19,363**	**115**	**454**	**269**	**838**

								2021
	Analysed by ECL stage profile			Gross carrying amount	Analysed by ECL stage profile			ECL allowance
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Agriculture	1,397	188	87	1,672	9	13	36	58
Energy	2,054	139	2	2,195	11	19	2	32
Manufacturing	1,322	264	56	1,642	8	15	15	38
Distribution:								
Hotels	119	1,524	362	2,005	9	255	44	308
Licensed premises	83	199	140	422	4	34	36	74
Retail/Wholesale	1,171	184	146	1,501	17	26	53	96
Other distribution	222	40	25	287	5	6	12	23
	1,595	1,947	673	4,215	35	321	145	501
Transport	1,306	271	43	1,620	7	26	25	58
Financial	264	14	4	282	2	1	2	5
Other services	3,031	497	210	3,738	26	42	84	152
Total	10,969	3,320	1,075	15,364	98	437	309	844
SIF	2,904	397	14	3,315	24	98	2	124
Total	13,873	3,717	1,089	18,679	122	535	311	968

The Syndicated & International Finance ("SIF") business unit, which is a specialised lending unit within Capital Markets, is involved in participating in the provision of finance to US and European corporations for mergers, acquisitions, buy-outs and general corporate purposes. The SIF non-property portfolio has reduced by € 0.3 billion to € 3.0 billion at 31 December 2022 (2021: € 3.3 billion).

At 31 December 2022, 94% of the SIF lending portfolio is in a strong/satisfactory grade (2021: 94%). 86% of the SIF portfolio is rated by S&P, with 66% rated B+ or above, 16% rated B and 4% rated B- or below. The majority of the loans (74%) are to large borrowers with EBITDA > € 250 million. Exposures are well diversified by name and sector with the top 20 borrowers accounting for 28% of total exposure. 62% of the borrowers in this portfolio are domiciled in the USA, 4% in the UK, and 34% in the Rest of the World (primarily Europe) (2021: 63% in the USA, 3% in the UK and 34% in the Rest of the World (primarily Europe) respectively).

The SIF portfolio had a net credit impairment charge to the income statement in 2022 of € 32 million (2021: € 12 million writeback).

2.1 Credit risk – Credit profile of the loan portfolio

The following tables set out the concentration of credit by industry sector and geography for loans and advances to customers and loan commitments and financial guarantee contracts issued together with the related ECL allowance analysed by the ECL stage profile at 31 December 2022 and 2021:

Gross exposures to customers

									2022
								At amortised cost	At FVTPL
	Gross carrying amount			Analysed by stage profile					
	Loans and advances to customers	Loan commitments and financial guarantees issued	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Concentration by industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Non-property business:									
Agriculture	1,656	668	2,324	1,975	270	79	—	2,324	—
Energy	2,814	1,668	4,482	4,240	213	29	—	4,482	9
Manufacturing	2,864	1,939	4,803	4,318	397	88	—	4,803	—
Distribution	4,138	1,580	5,718	3,378	1,908	432	—	5,718	14
Transport	2,632	914	3,546	3,196	310	40	—	3,546	—
Financial	477	572	1,049	972	76	1	—	1,049	—
Other services	4,782	2,103	6,885	6,049	679	157	—	6,885	—
Property and construction	8,617	2,384	11,001	9,056	1,509	436	—	11,001	226
Residential mortgages	30,279	1,168	31,447	29,553	1,161	646	87	31,447	—
Other personal	2,723	2,866	5,589	4,810	591	188	—	5,589	—
Total	60,982	15,862	76,844	67,547	7,114	2,096	87	76,844	249
Concentration by location[1]									
Republic of Ireland	48,061	11,971	60,032	53,343	5,125	1,477	87	60,032	249
United Kingdom	8,087	2,976	11,063	9,322	1,339	402	—	11,063	—
North America	2,116	375	2,491	2,158	312	21	—	2,491	—
Rest of the World	2,718	540	3,258	2,724	338	196	—	3,258	—
	60,982	15,862	76,844	67,547	7,114	2,096	87	76,844	249

ECL allowance

								2022
								At amortised cost
	Gross carrying amount			Analysed by stage profile				
	Loans and advances to customers	Loan commitments and financial guarantees issued	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Concentration by industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Non-property business:								
Agriculture	54	3	57	11	20	26	—	57
Energy	56	8	64	16	25	23	—	64
Manufacturing	89	11	100	23	49	28	—	100
Distribution	398	14	412	30	269	113	—	412
Transport	65	1	66	12	30	24	—	66
Financial	31	—	31	3	28	—	—	31
Other services	145	10	155	33	63	59	—	155
Property and construction	320	23	343	90	121	132	—	343
Residential mortgages	283	—	283	40	37	197	9	283
Other personal	177	8	185	26	43	116	—	185
Total	1,618	78	1,696	284	685	718	9	1,696
Concentration by location[1]								
Republic of Ireland	1,159	64	1,223	204	442	568	9	1,223
United Kingdom	250	11	261	51	111	99	—	261
North America	64	3	67	13	47	7	—	67
Rest of the World	145	—	145	16	85	44	—	145
	1,618	78	1,696	284	685	718	9	1,696

(1) Based on country of risk.

2.1 Credit risk – Credit profile of the loan portfolio

Gross exposures to customers

									2021
								At amortised cost	At FVTPL
	Gross carrying amount			Analysed by stage profile					
	Loans and advances to customers	Loan commitments and financial guarantees issued	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Total
Concentration by industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Non-property business:									
Agriculture	1,677	614	2,291	1,970	223	98	—	2,291	—
Energy	2,214	1,100	3,314	3,130	146	38	—	3,314	—
Manufacturing	2,542	1,733	4,275	3,821	387	67	—	4,275	—
Distribution	4,685	1,308	5,993	2,880	2,404	709	—	5,993	—
Transport	2,209	632	2,841	2,448	347	46	—	2,841	—
Financial	521	504	1,025	957	65	3	—	1,025	—
Other services	4,831	2,189	7,020	6,108	686	226	—	7,020	—
Property and construction	7,360	2,365	9,725	7,571	1,483	671	—	9,725	243
Residential mortgages	29,407	1,245	30,652	28,167	1,452	930	103	30,652	—
Other personal	2,704	2,856	5,560	4,909	393	258	—	5,560	—
Total	58,150	14,546	72,696	61,961	7,586	3,046	103	72,696	243
Concentration by location[1]									
Republic of Ireland	44,583	11,306	55,889	48,089	5,556	2,141	103	55,889	243
United Kingdom	8,605	2,572	11,177	8,993	1,486	698	—	11,177	—
North America	2,232	182	2,414	2,196	206	12	—	2,414	—
Rest of the World	2,730	486	3,216	2,683	338	195	—	3,216	—
	58,150	14,546	72,696	61,961	7,586	3,046	103	72,696	243

ECL allowance

								2021
								At amortised cost
	Gross carrying amount			Analysed by stage profile				
	Loans and advances to customers	Loan commitments and financial guarantees issued	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Concentration by industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Non-property business:								
Agriculture	59	4	63	10	15	38	—	63
Energy	32	1	33	13	18	2	—	33
Manufacturing	53	9	62	17	27	18	—	62
Distribution	557	20	577	40	388	149	—	577
Transport	67	3	70	11	34	25	—	70
Financial	25	2	27	5	20	2	—	27
Other services	175	13	188	41	62	85	—	188
Property and construction	313	20	333	53	93	187	—	333
Residential mortgages	382	—	382	35	41	275	31	382
Other personal	222	7	229	32	38	159	—	229
Total	1,885	79	1,964	257	736	940	31	1,964
Concentration by location[1]								
Republic of Ireland	1,471	62	1,533	182	516	804	31	1,533
United Kingdom	266	13	279	44	109	126	—	279
North America	50	3	53	19	32	2	—	53
Rest of the World	98	1	99	12	79	8	—	99
	1,885	79	1,964	257	736	940	31	1,964

(1) Based on country of risk.

2.1 Credit risk – Credit profile of the loan portfolio

Aged analysis of contractually past due loans and advances to customers

The following table shows aged analysis of contractually past due loans and advances to customers by industry sector analysed by ECL staging and segment at 31 December 2022 and 2021.

At amortised cost

							2022
	1-30 days	31-60 days	61-90 days	91-180 days	181-365 days	> 365 days	Total
Industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Non-property business:							
Agriculture	9	3	1	2	4	15	34
Energy	18	—	—	—	1	—	19
Manufacturing	8	2	1	1	3	6	21
Distribution	61	6	2	13	40	60	182
Transport	1	—	—	—	3	6	10
Financial	—	—	—	—	—	1	1
Other services	14	4	3	7	12	28	68
Property and construction	64	14	18	19	45	53	213
Residential mortgages	67	19	20	33	60	209	408
Other personal	39	12	7	21	30	88	197
Total gross carrying amount	281	60	52	96	198	466	1,153
ECL staging							
Stage 1	85	—	—	—	—	—	85
Stage 2	128	39	19	—	—	—	186
Stage 3	67	21	33	96	197	461	875
POCI	1	—	—	—	1	5	7
	281	60	52	96	198	466	1,153
Segment							
Retail Banking	129	39	35	72	144	408	827
Capital Markets	13	2	—	18	9	21	63
AIB UK	139	19	17	6	45	37	263
Group	—	—	—	—	—	—	—
	281	60	52	96	198	466	1,153
As a percentage of total gross loans at amortised cost	%	%	%	%	%	%	%
	0.46	0.10	0.09	0.16	0.32	0.76	1.89

The figures reported are inclusive of overdrafts, bridging loans and cases with expired limits.

There were no contractually past due loans measured at FVTPL at 31 December 2022 and 2021.

2.1 Credit risk – Credit profile of the loan portfolio

Aged analysis of contractually past due loans and advances to customers continued

At amortised cost

							2021
	1-30 days	31-60 days	61-90 days	91-180 days	181-365 days	> 365 days	Total
Industry sector	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Non-property business:							
Agriculture	14	5	1	5	4	21	50
Energy	—	—	—	—	—	2	2
Manufacturing	4	2	—	2	3	8	19
Distribution	34	8	13	47	64	85	251
Transport	6	2	1	13	1	8	31
Financial	—	—	—	—	1	2	3
Other services	25	17	1	12	9	42	106
Property and construction	30	10	4	14	50	163	271
Residential mortgages	50	34	14	42	68	322	530
Other personal	40	10	9	21	29	139	248
Total gross carrying amount	203	88	43	156	229	792	1,511
ECL staging							
Stage 1	65	—	—	—	—	—	65
Stage 2	86	43	15	—	—	—	144
Stage 3	52	43	27	155	228	786	1,291
POCI	—	2	1	1	1	6	11
	203	88	43	156	229	792	1,511
Segment							
Retail Banking	119	58	35	104	144	688	1,148
Capital Markets	17	14	—	19	52	47	149
AIB UK	67	16	8	33	33	57	214
Group	—	—	—	—	—	—	—
	203	88	43	156	229	792	1,511
As a percentage of total gross loans at amortised cost	%	%	%	%	%	%	%
	0.35	0.15	0.07	0.27	0.39	1.36	2.60

At 31 December 2022, total loans past due reduced by € 0.3 billion to € 1.2 billion or 1.9% of total loans and advances to customers (2021: € 1.5 billion or 2.6%).

The reduction in the total loans past due portfolio was in the >365 days category and predominately in the non-property business and residential mortgage portfolios as both reduced by € 0.1 billion as a result of non-performing portfolio sales completed during the year.

Residential Mortgage loans past due at 31 December 2022 represent the largest concentration amounting to € 0.4 billion or 35% of total loans past due (2021: € 0.5 billion or 35%). Non-property business loans which were past due represent 29% or € 0.4 billion (2021: 31% or € 0.5 billion), with property and construction at 19% or € 0.2 billion (2021: 18% or € 0.3 billion), and other personal at 17% or € 0.2 billion (2021: 16% or € 0.2 billion).

All loans past due by 90 days or more on any material obligation are considered non-performing/defaulted.

2.1 Credit risk – Credit profile of the loan portfolio

Loans written-off and recoveries of previously written-off loans

The following table analyses loans written-off and recoveries of previously written-off loans by geography and industry sector for the years ended 31 December 2022 and 2021:

	2022		2021	
	Loans written-off	**Recoveries of amounts previously written-off**	Loans written-off	Recoveries of amounts previously written-off
Concentration by industry sector	**€ m**	**€ m**	€ m	€ m
Non-property business:				
Agriculture	**—**	**1.5**	0.9	3.9
Energy	**—**	**—**	—	0.3
Manufacturing	**0.1**	**1.1**	1.8	0.8
Distribution	**3.6**	**6.0**	6.8	5.6
Transport	**3.0**	**0.4**	0.1	0.4
Financial	**0.1**	**0.1**	0.1	—
Other services	**16.1**	**3.9**	5.2	5.4
Property and construction	**19.2**	**12.2**	24.6	19.4
Residential mortgages	**19.7**	**14.6**	44.4	24.8
Other personal	**32.1**	**5.0**	21.4	14.8
Total	**93.9**	**44.8**	105.3	75.4
Concentration by location(1)				
Republic of Ireland	**73.5**	**39.7**	88.6	70.5
United Kingdom	**20.4**	**4.1**	15.2	4.6
Rest of the World	**—**	**1.0**	1.5	0.3
	93.9	**44.8**	105.3	75.4

(1) By country of risk

The contractual amount outstanding of loans written-off during the year that are subject to enforcement activity amounted to € 8 million (2021: € 5 million) which includes both full and partial write-offs. Total cumulative non-contracted loans written-off at 31 December 2022 has reduced to € 261 million following the non-performing loan portfolio sales completed during the year (2021: € 1,082 million).*

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*Forms an integral part of the audited financial statements

2.1 Credit risk – Credit profile of the loan portfolio

Gross loans[1] and ECL movements

The following tables set out the movements in the gross carrying amount and ECL allowance for loans and advances to customers by ECL staging between 1 January 2022 and 31 December 2022 and the corresponding movements between 1 January 2021 and 31 December 2021.

Accounts that triggered movements between Stage 1 and Stage 2 as a result of failing/curing a quantitative measure only (as disclosed on pages 140 and 141) and that subsequently reverted within the year to their original stage, are excluded from 'Transferred from Stage 1 to Stage 2' and 'Transferred from Stage 2 to Stage 1'. The Group believes this presentation aids the understanding of the underlying credit migration.

Gross carrying amount movements – total

					2022*
	Stage 1 € m	**Stage 2 € m**	**Stage 3 € m**	**POCI € m**	**Total € m**
At 1 January	**48,394**	**6,768**	**2,885**	**103**	**58,150**
Transferred from Stage 1 to Stage 2	**(3,599)**	**3,599**	**—**	**—**	**—**
Transferred from Stage 2 to Stage 1	**2,317**	**(2,317)**	**—**	**—**	**—**
Transferred to Stage 3	**(91)**	**(623)**	**714**	**—**	**—**
Transferred from Stage 3	**39**	**301**	**(340)**	**—**	**—**
New loans originated/top-ups [2]	**14,594**	**—**	**—**	**—**	**14,594**
Redemptions/repayments	**(10,071)**	**(1,768)**	**(657)**	**(12)**	**(12,508)**
Interest credited	**1,566**	**202**	**71**	**2**	**1,841**
Write-offs	**—**	**—**	**(94)**	**—**	**(94)**
Derecognised due to disposals	**(151)**	**(109)**	**(541)**	**(6)**	**(807)**
Exchange translation adjustments	**(212)**	**(69)**	**(25)**	**—**	**(306)**
Impact of model, parameter and overlay changes	**—**	**—**	**—**	**—**	**—**
Other movements	**76**	**52**	**(16)**	**—**	**112**
At 31 December	**52,862**	**6,036**	**1,997**	**87**	**60,982**

					2021*
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m
At 1 January	45,609	9,408	4,075	184	59,276
Transferred from Stage 1 to Stage 2	(3,817)	3,817	—	—	—
Transferred from Stage 2 to Stage 1	4,012	(4,012)	—	—	—
Transferred to Stage 3	(116)	(912)	1,028	—	—
Transferred from Stage 3	55	335	(390)	—	—
New loans originated/top-ups	10,460	—	—	—	10,460
Redemptions/repayments	(9,324)	(2,390)	(751)	(16)	(12,481)
Interest credited	1,363	240	69	4	1,676
Write-offs	—	—	(104)	(1)	(105)
Derecognised due to disposals	(295)	(138)	(988)	(72)	(1,493)
Exchange translation adjustments	641	170	45	—	856
Impact of model, parameter and overlay changes	(209)	209	—	—	—
Other movements	15	41	(99)	4	(39)
At 31 December	48,394	6,768	2,885	103	58,150

(1) Movements on the gross loans table have been prepared on a 'sum of the months' basis.
(2) Includes € 2.1 billion of loans acquired from Ulster Bank.

*Forms an integral part of the audited financial statements

2.1 Credit risk – Credit profile of the loan portfolio

Gross loans and ECL movements continued

ECL allowance movements – total

	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	2022* Total € m
At 1 January	**236**	**700**	**918**	**31**	**1,885**
Transferred from Stage 1 to Stage 2	**(40)**	**146**	**—**	**—**	**106**
Transferred from Stage 2 to Stage 1	**30**	**(102)**	**—**	**—**	**(72)**
Transferred to Stage 3	**(3)**	**(71)**	**126**	**—**	**52**
Transferred from Stage 3	**3**	**39**	**(91)**	**—**	**(49)**
Net remeasurement	**31**	**(16)**	**(16)**	**(5)**	**(6)**
New loans originated/top-ups	**66**	**—**	**—**	**—**	**66**
Redemptions/repayments	**(26)**	**(67)**	**—**	**—**	**(93)**
Impact of model and overlay changes	**21**	**20**	**48**	**(12)**	**77**
Impact of credit or economic risk parameters	**(59)**	**22**	**6**	**—**	**(31)**
Income statement net credit impairment (writeback)/charge(1)	**23**	**(29)**	**73**	**(17)**	**50**
Write-offs	**—**	**—**	**(94)**	**—**	**(94)**
Derecognised due to disposals	**(1)**	**(7)**	**(202)**	**—**	**(210)**
Exchange translation adjustments	**(1)**	**(5)**	**(7)**	**—**	**(13)**
Other movements	**6**	**(13)**	**12**	**(5)**	**—**
At 31 December	**263**	**646**	**700**	**9**	**1,618**

(1) Net credit impairment charge of € 50 million includes the impact of the Ulster Bank portfolio acquired during the year which resulted in a net charge of € 39 million.

	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	2021* Total € m
At 1 January	281	845	1,315	69	2,510
Transferred from Stage 1 to Stage 2	(61)	204	—	—	143
Transferred from Stage 2 to Stage 1	87	(194)	—	—	(107)
Transferred to Stage 3	(7)	(125)	213	—	81
Transferred from Stage 3	3	32	(73)	—	(38)
Net remeasurement	(43)	(38)	(153)	—	(234)
New loans originated/top-ups	62	—	—	—	62
Redemptions/repayments	(25)	(43)	—	—	(68)
Impact of model and overlay changes	(4)	53	99	(13)	135
Impact of credit or economic risk parameters	(58)	(41)	(33)	—	(132)
Income statement net credit impairment (writeback)/charge	(46)	(152)	53	(13)	(158)
Write-offs	—	—	(104)	(1)	(105)
Derecognised due to disposals	(4)	(8)	(357)	(24)	(393)
Exchange translation adjustments	5	15	11	—	31
Other movements	—	—	—	—	—
At 31 December	236	700	918	31	1,885

*Forms an integral part of the audited financial statements

2.1 Credit risk – Credit profile of the loan portfolio

Gross loans and ECL movements continued

Total exposures to which an ECL applies increased during the year by € 2.8 billion from € 58.2 billion at 1 January 2022 to € 61.0 billion at 31 December 2022.

Model and overlay changes resulted in an ECL charge of € 77 million and further detail on the changes is outlined within the management judgements section on pages 150 and 151. These ensure exposures subject to risk, which are not adequately reflected in the modelled outcomes retain an appropriate ECL.

The updated macroeconomic scenarios and weightings resulted in a release of € 31 million. This ECL movement is presented separately within 'Impact of credit or economic risk parameters'. This release was most significant within the property and construction portfolio accounting for a release of € 28 million within the portfolio. This was driven by an improvement in macroeconomic forecasts in particular lower forecast unemployment and is offset by an ECL charge resulting from overlay changes.

Stage transfers are a key component of ECL allowance movements (i.e. Stage 1 to Stage 2 to Stage 3 and vice versa) in addition to the net remeasurement of ECL due to change in risk parameters within a stage. An ECL charge of € 4 million due to stage transfers and net remeasurement within stage occurred due to underlying credit management activity and improvement in credit parameters which inform the modelled outcomes.

The gross loan transfers from Stage 1 to Stage 2 of € 3.6 billion are due to underlying credit management activity where a significant increase in credit risk occurred at some point during the year through either the quantitative or qualitative criteria for stage movement. 47% of the movements relied on a qualitative or backstop indicator of significant increase in credit risk (e.g. forbearance or movement to a watch grade) with 4% caused solely by the backstop of 30 days past due. Of the € 3.6 billion which transferred from Stage 1 to Stage 2 in the year approximately € 2.3 billion is reported as Stage 2 at 31 December 2022.

Where a movement to Stage 2 is triggered by multiple drivers simultaneously these are reported in the following order: quantitative; qualitative; backstop.

Similarly, transfers from Stage 2 to Stage 1 of € 2.3 billion represent those loans where the triggers for significant increase in credit risk no longer apply or loans that have fulfilled a probation period. These transfers include loans which have been upgraded through normal credit management process and incorporates loans which transferred due to the impact of the updated macroeconomic scenarios and weightings.

Transfers from Stage 2 to Stage 3 of € 0.6 billion represent those loans that defaulted during the year. These arose in cases where it was determined that the customers were unlikely to pay their loans in full without the realisation of collateral regardless of the existence of any past due amount or the number of days past due. In addition, transfers also include all borrowers that are 90 days or more past due on a material obligation. Of the transfers from Stage 2 to Stage 3 € 0.2 billion had transferred from Stage 1 to Stage 2 earlier in the year.

Transfers from Stage 3 to Stage 2 of € 0.3 billion were mainly driven by resolution activity with the customer, through either restructuring or forbearance previously granted and which subsequently adhered to default probation requirements. As part of the credit management practices, active monitoring of loans and their adherence to default probation requirements is in place.

In summary, the staging movements of the overall portfolio were as follows:

Stage 1 loans increased by € 4.5 billion in the year to € 52.9 billion with an ECL of € 0.3 billion and resulting cover of 0.5% (2021: 0.5%).

Stage 2 loans decreased by € 0.8 billion in the year to € 6.0 billion with an ECL of € 0.6 billion and resulting cover of 10.7% (2021: 10.3%). This was primarily driven by repayments of loans during the year.

Stage 3 exposures decreased by € 0.9 billion in the year to € 2.0 billion with the ECL cover increasing from 31.8% to 35.1%. The decrease was primarily due to the sales of non-performing loan portfolios completed during the year.

Further details on stage movements by asset class are set out in the following tables:

2.1 Credit risk – Credit profile of the loan portfolio

Gross loans(1) and ECL movements continued

The following tables set out the movements in the gross carrying amount and ECL allowance for loans and advances to customers by asset class and ECL staging for the year to 31 December 2022 and 2021:

Gross carrying amount movements – Asset class

																			2022
	Residential Mortgages					**Other Personal**				**Property and construction**					**Non-Property Business**			
	Stage 1 € m	**Stage 2 € m**	**Stage 3 € m**	**POCI € m**	**Total € m**	**Stage 1 € m**	**Stage 2 € m**	**Stage 3 € m**	**Total € m**	**Stage 1 € m**	**Stage 2 € m**	**Stage 3 € m**	**POCI € m**	**Total € m**	**Stage 1 € m**	**Stage 2 € m**	**Stage 3 € m**	**Total € m**
At 1 January	**26,937**	**1,446**	**921**	**103**	**29,407**	**2,238**	**219**	**247**	**2,704**	**5,346**	**1,386**	**628**	**—**	**7,360**	**13,873**	**3,717**	**1,089**	**18,679**
Transferred from Stage 1 to Stage 2	**(1,120)**	**1,120**	**—**	**—**	**—**	**(377)**	**377**	**—**	**—**	**(680)**	**680**	**—**	**—**	**—**	**(1,422)**	**1,422**	**—**	**—**
Transferred from Stage 2 to Stage 1	**1,195**	**(1,195)**	**—**	**—**	**—**	**173**	**(173)**	**—**	**—**	**311**	**(311)**	**—**	**—**	**—**	**638**	**(638)**	**—**	**—**
Transferred to Stage 3	**(33)**	**(197)**	**230**	**—**	**—**	**(12)**	**(87)**	**99**	**—**	**(7)**	**(76)**	**83**	**—**	**—**	**(39)**	**(263)**	**302**	**—**
Transferred from Stage 3	**12**	**181**	**(193)**	**—**	**—**	**1**	**17**	**(18)**	**—**	**10**	**30**	**(40)**	**—**	**—**	**16**	**73**	**(89)**	**—**
New loans originated/top-ups	**4,660**	**—**	**—**	**—**	**4,660**	**974**	**—**	**—**	**974**	**3,409**	**—**	**—**	**—**	**3,409**	**5,551**	**—**	**—**	**5,551**
Redemptions/repayments	**(3,917)**	**(225)**	**(133)**	**(12)**	**(4,287)**	**(915)**	**(98)**	**(55)**	**(1,068)**	**(1,653)**	**(376)**	**(164)**	**—**	**(2,193)**	**(3,586)**	**(1,069)**	**(305)**	**(4,960)**
Interest credited	**674**	**27**	**18**	**2**	**721**	**152**	**23**	**8**	**183**	**211**	**38**	**16**	**—**	**265**	**529**	**114**	**29**	**672**
Write-offs	**—**	**—**	**(20)**	**—**	**(20)**	**—**	**—**	**(32)**	**(32)**	**—**	**—**	**(19)**	**—**	**(19)**	**—**	**—**	**(23)**	**(23)**
Derecognised due to disposals	**(1)**	**(8)**	**(179)**	**(6)**	**(194)**	**(2)**	**—**	**(73)**	**(75)**	**(37)**	**(10)**	**(96)**	**—**	**(143)**	**(111)**	**(91)**	**(193)**	**(395)**
Exchange translation adjustments	**(52)**	**(2)**	**(2)**	**—**	**(56)**	**(4)**	**(1)**	**—**	**(5)**	**(91)**	**(10)**	**(5)**	**—**	**(106)**	**(65)**	**(56)**	**(18)**	**(139)**
overlay changes	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other movements	**41**	**11**	**(4)**	**—**	**48**	**46**	**(7)**	**3**	**42**	**1**	**40**	**3**	**—**	**44**	**(12)**	**8**	**(18)**	**(22)**
At 31 December	**28,396**	**1,158**	**638**	**87**	**30,279**	**2,274**	**270**	**179**	**2,723**	**6,820**	**1,391**	**406**	**—**	**8,617**	**15,372**	**3,217**	**774**	**19,363**

																		2021
	Residential Mortgages					Other Personal				Property and construction					Non-Property Business			
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At 1 January	26,535	1,950	1,980	184	30,649	2,201	332	233	2,766	4,319	2,076	865	—	7,260	12,554	5,050	997	18,601
Transferred from Stage 1 to Stage 2	(1,173)	1,173	—	—	—	(252)	252	—	—	(677)	677	—	—	—	(1,715)	1,715	—	—
Transferred from Stage 2 to Stage 1	1,493	(1,493)	—	—	—	211	(211)	—	—	581	(581)	—	—	—	1,727	(1,727)	—	—
Transferred to Stage 3	(34)	(191)	225	—	—	(13)	(80)	93	—	(25)	(106)	131	—	—	(44)	(535)	579	—
Transferred from Stage 3	11	170	(181)	—	—	3	18	(21)	—	15	29	(44)	—	—	26	118	(144)	—
New loans originated/top-ups	3,136	—	—	—	3,136	859	—	—	859	1,842	—	—	—	1,842	4,623	—	—	4,623
Redemptions/repayments	(3,749)	(233)	(169)	(16)	(4,167)	(961)	(111)	(56)	(1,128)	(902)	(783)	(158)	—	(1,843)	(3,712)	(1,263)	(368)	(5,343)
Interest credited	655	32	19	4	710	193	25	5	223	145	47	15	—	207	370	136	30	536
Write-offs	—	—	(43)	(1)	(44)	—	—	(21)	(21)	—	—	(25)	—	(25)	—	—	(15)	(15)
Derecognised due to disposals	—	(3)	(925)	(72)	(1,000)	(19)	(1)	(3)	(23)	(116)	(20)	(13)	—	(149)	(160)	(114)	(47)	(321)
Exchange translation adjustments	67	3	6	—	76	6	1	—	7	110	18	12	—	140	458	148	27	633
overlay changes	(1)	1	—	—	—	(1)	1	—	—	(19)	19	—	—	—	(188)	188	—	—
Other movements	(3)	37	9	4	47	11	(7)	17	21	73	10	(155)	—	(72)	(66)	1	30	(35)
At 31 December	26,937	1,446	921	103	29,407	2,238	219	247	2,704	5,346	1,386	628	—	7,360	13,873	3,717	1,089	18,679

(1) Movements on the gross loans table have been prepared on a 'sum of the months' basis.

2.1 Credit risk – Credit profile of the loan portfolio

Gross loans and ECL movements continued

ECL allowance movements – Asset class

2022

	Residential Mortgages					Other personal				Property and construction					Non-Property Business			
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At 1 January	**34**	**41**	**276**	**31**	**382**	**30**	**33**	**159**	**222**	**50**	**91**	**172**	**—**	**313**	**122**	**535**	**311**	**968**
Transferred from Stage 1 to Stage 2	**(2)**	**20**			**18**	**(8)**	**58**		**50**	**(14)**	**41**			**27**	**(16)**	**27**		**11**
Transferred from Stage 2 to Stage 1	**9**	**(22)**			**(13)**	**4**	**(25)**		**(21)**	**3**	**(8)**			**(5)**	**14**	**(47)**		**(33)**
Transferred to Stage 3	**—**	**(7)**	**14**		**7**	**—**	**(30)**	**47**	**17**	**—**	**(9)**	**19**		**10**	**(3)**	**(25)**	**46**	**18**
Transferred from Stage 3	**1**	**24**	**(51)**		**(26)**	**—**	**4**	**(10)**	**(6)**	**—**	**4**	**(12)**		**(8)**	**2**	**7**	**(18)**	**(9)**
Net re-measurement	**4**	**8**	**3**	**(5)**	**10**	**(8)**	**(2)**	**10**	**—**	**2**	**(19)**	**(8)**	**—**	**(25)**	**33**	**(3)**	**(21)**	**9**
New loans originated/top-ups	**3**	**—**	**—**	**—**	**3**	**11**	**—**	**—**	**11**	**23**	**—**	**—**	**—**	**23**	**29**	**—**	**—**	**29**
Redemptions/repayments	**(1)**	**(3)**	**—**	**—**	**(4)**	**(2)**	**(1)**	**—**	**(3)**	**(14)**	**(8)**	**—**	**—**	**(22)**	**(9)**	**(55)**	**—**	**(64)**
Impact of model and overlay changes	**(3)**	**(21)**	**31**	**(12)**	**(5)**	**1**	**(2)**	**(17)**	**(18)**	**40**	**33**	**5**	**—**	**78**	**(17)**	**10**	**29**	**22**
Impact of credit or economic risk parameters	**—**	**1**	**4**	**—**	**5**	**(8)**	**1**	**(1)**	**(8)**	**(17)**	**(14)**	**3**	**—**	**(28)**	**(34)**	**34**	**—**	**—**
Net credit impairment (writeback)/charge	**11**	**—**	**1**	**(17)**	**(5)**	**(10)**	**3**	**29**	**22**	**23**	**20**	**7**	**—**	**50**	**(1)**	**(52)**	**36**	**(17)**
Write-offs	**—**	**—**	**(20)**	**—**	**(20)**	**—**	**—**	**(32)**	**(32)**	**—**	**—**	**(19)**	**—**	**(19)**	**—**	**—**	**(23)**	**(23)**
Derecognised due to disposals	**—**	**(3)**	**(68)**	**—**	**(71)**	**—**	**—**	**(35)**	**(35)**	**—**	**—**	**(34)**	**—**	**(34)**	**(1)**	**(4)**	**(65)**	**(70)**
Exchange translation adjustments	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1)**	**—**	**(2)**	**—**	**(3)**	**—**	**(5)**	**(5)**	**(10)**
Other movements	**(5)**	**—**	**7**	**(5)**	**(3)**	**4**	**1**	**(5)**	**—**	**12**	**6**	**(5)**	**—**	**13**	**(5)**	**(20)**	**15**	**(10)**
At 31 December	**40**	**38**	**196**	**9**	**283**	**24**	**37**	**116**	**177**	**84**	**117**	**119**	**—**	**320**	**115**	**454**	**269**	**838**

2021

	Residential Mortgages					Other personal				Property and construction					Non-Property Business			
	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	POCI € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At 1 January	39	73	662	69	843	41	51	142	234	75	133	188	—	396	126	588	323	1,037
Transferred from Stage 1 to Stage 2	(5)	27	—	—	22	(10)	49	—	39	(10)	18	—	—	8	(36)	110	—	74
Transferred from Stage 2 to Stage 1	12	(28)	—	—	(16)	8	(30)	—	(22)	11	(19)	—	—	(8)	56	(117)	—	(61)
Transferred to Stage 3	—	(14)	30	—	16	(1)	(31)	46	14	(2)	(9)	16	—	5	(4)	(71)	121	46
Transferred from Stage 3	1	12	(25)	—	(12)	—	4	(12)	(8)	—	2	(5)	—	(3)	2	14	(31)	(15)
Net re-measurement	(7)	(3)	(38)	—	(48)	(17)	(4)	3	(18)	(23)	(7)	(15)	—	(45)	4	(24)	(103)	(123)
New loans originated/top-ups	3	—	—	—	3	12	—	—	12	29	—	—	—	29	18	—	—	18
Redemptions/repayments	(2)	(3)	—	—	(5)	(3)	(1)	—	(4)	(8)	(16)	—	—	(24)	(12)	(23)	—	(35)
Impact of model and overlay changes	11	(7)	53	(13)	44	6	(3)	1	4	(3)	(2)	25	—	20	(18)	65	20	67
Impact of credit or economic risk parameters	(18)	(15)	(26)	—	(59)	(5)	(2)	—	(7)	(22)	(9)	(4)	—	(35)	(13)	(15)	(3)	(31)
Net credit impairment (writeback)/charge	(5)	(31)	(6)	(13)	(55)	(10)	(18)	38	10	(28)	(42)	17	—	(53)	(3)	(61)	4	(60)
Write-offs	—	—	(43)	(1)	(44)	—	—	(21)	(21)	—	—	(25)	—	(25)	—	—	(15)	(15)
Derecognised due to disposals	—	—	(339)	(24)	(363)	—	—	(1)	(1)	(1)	—	(6)	—	(7)	(3)	(8)	(11)	(22)
Exchange translation adjustments	—	—	2	—	2	—	—	—	—	1	1	3	—	5	4	14	6	24
Other movements	—	(1)	—	—	(1)	(1)	—	1	—	3	(1)	(5)	—	(3)	(2)	2	4	4
At 31 December	34	41	276	31	382	30	33	159	222	50	91	172	—	313	122	535	311	968

2.1 Credit risk – Credit profile of the loan portfolio

Movements in off-balance sheet exposures

The following tables set out the movements in the nominal amount and ECL allowance for loan commitments and financial guarantees by ECL staging for the year to 31 December 2022 and 2021:

Nominal amount movements

								2022*
				Loan commitments				**Financial guarantee contracts**
	Stage 1 € m	**Stage 2 € m**	**Stage 3 € m**	**Total € m**	**Stage 1 € m**	**Stage 2 € m**	**Stage 3 € m**	**Total € m**
At 1 January	**12,824**	**768**	**135**	**13,727**	**743**	**50**	**26**	**819**
Transferred from Stage 1 to Stage 2	**(470)**	**470**	**—**	**—**	**(35)**	**35**	**—**	**—**
Transferred from Stage 2 to Stage 1	**297**	**(297)**	**—**	**—**	**31**	**(31)**	**—**	**—**
Transferred to Stage 3	**(10)**	**(10)**	**20**	**—**	**—**	**(1)**	**1**	**—**
Transferred from Stage 3	**14**	**4**	**(18)**	**—**	**1**	**—**	**(1)**	**—**
Net movement	**1,292**	**98**	**(57)**	**1,333**	**(2)**	**(8)**	**(7)**	**(17)**
At 31 December	**13,947**	**1,033**	**80**	**15,060**	**738**	**45**	**19**	**802**

								2021*
				Loan commitments				Financial guarantee contracts
	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m	Stage 1 € m	Stage 2 € m	Stage 3 € m	Total € m
At 1 January	11,259	1,113	132	12,504	544	147	31	722
Transferred from Stage 1 to Stage 2	(266)	266	—	—	(17)	17	—	—
Transferred from Stage 2 to Stage 1	814	(814)	—	—	101	(101)	—	—
Transferred to Stage 3	(17)	(7)	24	—	(1)	(1)	2	—
Transferred from Stage 3	11	5	(16)	—	1	1	(2)	—
Net movement	1,023	205	(5)	1,223	115	(13)	(5)	97
At 31 December	12,824	768	135	13,727	743	50	26	819

*Forms an integral part of the audited financial statements

2.1 Credit risk – Credit profile of the loan portfolio

Movements in off-balance sheet exposures continued

ECL allowance movements

								2022*
				Loan commitments				Financial guarantee contracts
	Stage 1		Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January	16	29	8	53	5	7	14	26
Transferred from Stage 1 to Stage 2	(2)	16	—	14	(4)	3	—	(1)
Transferred from Stage 2 to Stage 1	6	(15)	—	(9)	1	(3)	—	(2)
Transferred to Stage 3	—	(1)	2	1	(1)	—	1	—
Transferred from Stage 3	—	—	(1)	(1)	1	—	(1)	—
Net re-measurement	(1)	6	(3)	2	—	(3)	(1)	(4)
Net income statement (credit)/charge(1)	3	6	(2)	7	(3)	(3)	(1)	(7)
Other movements	—	—	(1)	(1)	—	—	—	—
At 31 December	19	35	5	59	2	4	13	19

(1) Net income statement charge of € 7 million for loan commitments includes € 6 million of loan commitments acquired as part of the Ulster Bank portfolio acquisition.

								2021*
				Loan commitments				Financial guarantee contracts
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January	20	30	4	54	3	8	18	29
Transferred from Stage 1 to Stage 2	(4)	15	—	11	(1)	4	—	3
Transferred from Stage 2 to Stage 1	7	(18)	—	(11)	3	(9)	—	(6)
Transferred to Stage 3	—	(1)	2	1	—	—	—	—
Transferred from Stage 3	—	—	—	—	1	—	(1)	—
Net re-measurement	(7)	3	1	(3)	(2)	3	(2)	(1)
Net income statement (credit)/charge	(4)	(1)	3	(2)	1	(2)	(3)	(4)
Other movements	—	—	1	1	1	1	(1)	1
At 31 December	16	29	8	53	5	7	14	26

The internal credit grade profile of loan commitments and financial guarantees is set out in the following table:

	2022* € m	2021* € m
Strong	10,844	9,564
Satisfactory	4,528	4,399
Criticised watch	257	327
Criticised recovery	134	95
Default	99	161
Total	15,862	14,546

Non-performing off-balance sheet commitments

Total non-performing off-balance sheet commitments amounted to € 99 million (2021: € 161 million).

*Forms an integral part of the audited financial statements

2.1 Credit risk

Credit ratings

External credit ratings of financial assets*

The following table sets out the credit quality of financial assets based on external credit ratings at 31 December 2022 and 2021. These include loans and advances to banks of € 1,502 million (2021: € 1,323 million), securities financing of € 6,282 million (2021: € 3,890 million), and investment debt securities at amortised cost of € 4,131 million (2021: € 4,071 million) and at FVOCI of € 11,837 million (2021: € 12,589 million). Information on the credit ratings for loans and advances to customers where an external credit rating is available is disclosed on page 172.

											2022
	At amortised cost					At FVOCI					Total
	Bank	Corporate	Sovereign	Other	Total	Bank	Corporate	Sovereign	Other	Total	
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
AAA/AA	440	—	2,171	1,405	4,016	4,008	110	4,048	453	8,619	12,635
A/A-	6,442	962	15	195	7,614	1,408	216	213	—	1,837	9,451
BBB+/BBB/BBB-	10	9	32	5	56	347	173	861	—	1,381	1,437
Sub investment	—	92	—	—	92	—	—	—	—	—	92
Unrated	2	112	—	23	137	—	—	—	—	—	137
Total	6,894	1,175	2,218	1,628 (1)	11,915	5,763	499	5,122 (2)	453	11,837	23,752
Of which:											
Stage 1	6,894	1,167	2,218	1,628	11,907	5,763	499	5,122	453	11,837	23,744
Stage 2	—	8	—	—	8	—	—	—	—	—	8
Stage 3	—	—	—	—	—	—	—	—	—	—	—

											2021
	At amortised cost					At FVOCI					Total
	Bank	Corporate	Sovereign	Other	Total	Bank	Corporate	Sovereign	Other	Total	
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
AAA/AA	595	—	289	896	1,780	3,883	72	1,182	495	5,632	7,412
A/A-	3,756	919	2,391	201	7,267	1,283	248	3,721	—	5,252	12,519
BBB+/BBB/BBB-	25	2	37	5	69	399	197	1,109	—	1,705	1,774
Sub investment	1	105	—	—	106	—	—	—	—	—	106
Unrated	—	62	—	—	62	—	—	—	—	—	62
Total	4,377	1,088	2,717	1,102 (1)	9,284	5,565	517	6,012 (2)	495	12,589	21,873
Of which:											
Stage 1	4,377	1,088	2,717	1,102	9,284	5,565	486	6,012	495	12,558	21,842
Stage 2	—	—	—	—	—	—	31	—	—	31	31
Stage 3	—	—	—	—	—	—	—	—	—	—	—

(1) Relates to asset backed securities.
(2) Includes supranational banks and government agencies.

*Forms an integral part of the audited financial statements

2.1 Credit risk

Additional credit quality and forbearance disclosures on loans and advances to customers

Forbearance

Overview

Forbearance occurs when a customer is granted a temporary or permanent concession or an agreed change to the existing contracted terms of a facility ('forbearance measure'), for reasons relating to the actual or apparent financial stress or distress of that customer. This also includes a total or partial refinancing of existing debt due to a customer availing of an embedded forbearance clause(s) in their contract. A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable to meet their loans to the Group in compliance with the existing agreed contracted terms and conditions. A concession or an agreed change to the contracted terms can be of a temporary (e.g. interest only) or permanent (e.g. term extension) nature.

The Group uses a range of initiatives to support its customers. The Group considers requests from customers who are experiencing cash flow difficulties on a case by case basis in line with the Group's Forbearance Policy and relevant procedures, and completes an affordability/repayment capacity assessment taking account of factors such as current and likely future financial circumstances, the customer's willingness to resolve such difficulties, and all relevant legal and regulatory obligations to ensure appropriate and sustainable measures are put in place.

Group credit policies, supported by relevant processes and procedures, are in place which set out the policy rules and principles underpinning the Group's approach to forbearance, ensuring the forbearance measure(s) provided to customers are affordable and sustainable, and in line with relevant regulatory requirements. Key principles include supporting viable Small and Medium Enterprises ("SMEs"), and providing support to enable customers to remain in their family home, whenever possible. The Group has implemented the standards for the Codes of Conduct in relation to customers in actual or apparent financial stress or distress, as set out by the Central Bank of Ireland ("the Central Bank"), ensuring these customers are dealt with in a professional and timely manner.

A request for forbearance is a trigger event for the Group to undertake an assessment of the customer's financial circumstances prior to any decision to grant a forbearance measure. This may result in the downgrading of the credit grade assigned and an increase in the expected credit loss. Facilities to which forbearance has been applied continue to be classified as forborne until an appropriate probation period has passed (minimum 24 months).

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

Mortgage portfolio

Under the mandate of the Central Bank's Code of Conduct on Mortgage Arrears ("CCMA"), the Group introduced a four-step process called the Mortgage Arrears Resolution Process, or MARP. This process aims to engage with, support and find resolution for mortgage customers (for their primary residence only) who are in arrears, or are at risk of going into arrears.

The four step process is summarised as follows:
- Communications – We are here to listen, support and provide advice;
- Financial information – To allow us to understand the customer's finances;
- Assessment – Using the financial information to assess the customer's situation; and
- Resolution – We work with the customer to find an appropriate resolution.

The core objective of the process is to determine appropriate and sustainable solutions that, where possible, help to keep customers in their family home. In addition to relevant temporary forbearance measures (such as interest only and capital and interest moratorium), this includes permanent forbearance measures which have been devised to assist existing Republic of Ireland primary residential mortgage customers in financial difficulty. This process may result in debt write-off, where appropriate. The types of permanent forbearance solutions currently include; arrears capitalisation, term extension, split mortgages, negative equity trade down, mortgage to rent and voluntary sale for loss.

Non-mortgage portfolio

The Group also has in place forbearance measures for customers in the non-mortgage portfolio and Buy-To-Let mortgages (BTLs) who are in financial difficulty.

This approach is based on customer affordability and sustainability by applying the following core principles:

- Customers must be treated objectively and consistently;
- Customer circumstances and debt obligations must be viewed holistically; and
- Solutions will be appropriately provided where customers are co-operative, and are willing but unable to pay.

The forbearance process is one of structured engagement to assess the long term levels of sustainable and unsustainable debt. The commercial aspects of this process require that customer affordability is viewed comprehensively, to include all available sources of finance for debt repayment, including unencumbered assets.

Types of non-mortgage forbearance include temporary measures (such as interest only and capital and interest moratorium) and permanent measures (such as term extension and arrears capitalisation). This process may result in debt write-off, where appropriate.

See accounting policy (s) 'Impairment of financial assets' in note 1 to the consolidated financial statements.

2.1 Credit risk

Additional credit quality and forbearance disclosures on loans and advances to customers

Forbearance

The following tables set out the internal credit ratings and ECL staging of forborne loans and advances to customers at 31 December 2022 and 2021:

					2022					2021
					At amortised cost					At amortised cost
	Residential mortgages	**Other personal**	**Property and construction**	**Non-property business**	**Total**	Residential mortgages	Other personal	Property and construction	Non-property business	Total
Analysed by forbearance type	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m	€ m
Temporary forbearance	**374**	**19**	**74**	**842**	**1,309** (1)	629	37	169	1,039	1,874 (1)
Permanent forbearance	**378**	**47**	**479**	**1,044**	**1,948** (2)	564	77	348	1,293	2,282 (2)
	752	**66**	**553**	**1,886**	**3,257**	1,193	114	517	2,332	4,156
Analysed by internal credit ratings										
Strong	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—
Satisfactory	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—
Total strong/ satisfactory	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—
Criticised watch	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—
Criticised recovery	**309**	**15**	**259**	**1,431**	**2,014**	430	23	296	1,645	2,394
Total criticised	**309**	**15**	**259**	**1,431**	**2,014**	430	23	296	1,645	2,394
Non-performing	**443**	**51**	**294**	**455**	**1,243**	763	91	221	687	1,762
Gross carrying amount	**752**	**66**	**553**	**1,886**	**3,257**	1,193	114	517	2,332	4,156
Analysed by ECL staging										
Stage 1	**2**	**—**	**19**	**98**	**119**	6	1	79	7	93
Stage 2	**246**	**15**	**240**	**1,333**	**1,834**	399	22	217	1,638	2,276
Stage 3	**424**	**51**	**294**	**455**	**1,224**	694	91	221	687	1,693
POCI	**80**	**—**	**—**	**—**	**80**	94	—	—	—	94
Total	**752**	**66**	**553**	**1,886**	**3,257**	1,193	114	517	2,332	4,156
ECL allowance	**151**	**32**	**146**	**424**	**753**	272	61	139	537	1,009

(1) Of which: interest only € 715 million, payment moratorium € 401 million, reduced payment € 107 million (2021: of which: interest only € 1,161 million, payment moratorium € 521 million, reduced payment € 164 million).

(2) Of which: arrears capitalisation and term extension € 728 million, amendment to or non-enforcement of financial covenant € 596 million, restructure € 409 million (2021: of which: arrears capitalisation and term extension € 864 million, amendment to or non-enforcement of financial covenant € 416 million, restructure € 255 million).

The Group continues to support its existing customers ensuring they are provided with the appropriate forbearance measures, particularly in the current environment by providing support to customers previously impacted by COVID-19 and may require forbearance measures following the withdrawal of Government supports. This has been a key area of focus for management particularly given the potential for further forbearance requests following the increasing rate of inflation and subsequent affordability issues as the costs of household goods and services rise, including mortgage repayments as a result of rising interest rates.

The total forbearance portfolio has decreased by € 0.9 billion to € 3.3 billion in the year (2021: € 4.2 billion).The decrease was partially due to the sale of a non-performing loan portfolio in long term default which resulted in non-performing loans in forbearance decreasing by € 0.5 billion in the year. The performing forborne element of the portfolio in criticised recovery also decreased by € 0.4 billion, due to lower inflows and customers exiting forbearance due to repayments or completion of probation criteria.

The overall reduction in the year was in the residential mortgages and non-property business portfolios as both decreased by € 0.4 billion.

2.2 Liquidity and funding risk

Liquidity risk is the risk that the Group will not be able to fund its assets and meet its payment obligations as they fall due, without incurring unacceptable costs or losses. Funding is the means by which liquidity is generated, e.g. secured or unsecured, corporate or retail. In this respect, funding risk is the risk that a specific form of liquidity cannot be obtained at an acceptable cost.

Identification and assessment

Liquidity and funding risk is identified and assessed by the Group's Material Risk Assessment ("MRA") process in support of the Internal Liquidity Adequacy Assessment Process ("ILAAP"). The MRA process is a 'top-down' assessment performed on at least an annual basis and identifies the key material risks to the Group, taking into account its strategic objectives, in addition to internal and external risk information.

The ILAAP is fully integrated and embedded in the strategic, financial and risk management processes of the Group. Embedding of the ILAAP is facilitated through the setting of risk appetite and ensuring that liquidity considerations are factored into all key strategic decisions.

The Group has a comprehensive ILAAP Framework for managing the Group's liquidity risk and complying with the Board's risk appetite as well as evolving regulatory standards. This is delivered through a combination of policy formation, governance, analysis, stress testing and limit setting and monitoring, and is part of the wider Risk Management Framework.

Management and measurement*

The objective of liquidity management is to ensure that, at all times, the Group holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties at an economic price. The ILAAP framework and supporting Funding and Liquidity risk policy set out the key requirements for managing the risk. These include:

- Adherence to both internal limits and regulatory defined liquidity ratios including the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). The LCR is designed to promote short term resilience of the Group's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for 30 days. The NSFR has a time horizon of one year and has been developed to promote a sustainable maturity structure of assets and liabilities;
- Performing a multiyear projection of the Group's funding sources taking into account its baseline scenario, strategy and operational plans as outlined in the Group's Funding and Liquidity Plan. The purpose of this Plan is to set out a comprehensive, forward looking liquidity and funding strategy for the Group including subsidiary companies;
- Assessing the Funding and Liquidity plan under a range of adverse scenarios, the outcomes of which should ensure sufficient liquidity to implement a sustainable strategy even in a stressed environment;
- Maintaining a Contingency Funding Plan that identifies and quantifies actions that are available to the Group in deteriorating liquidity conditions and emerge from a temporary liquidity crisis as a credit worthy institution;
- Monitoring a further set of triggers and liquidity options outlined in the Group's Recovery Plan, which presents the actions available to the Group to restore viability in the event of extreme stress; and
- Having an approved liquidity cost-benefit allocation mechanism in place to attribute funding costs, benefits and risks to the Group's business lines.

Monitoring, escalating and reporting

The Group liquidity and funding position is reported regularly to the Finance and Risk functions, Group Asset and Liability Committee ("ALCo"), Group Risk Committee ("GRC") and Board Risk Committee ("BRC"). In addition, the Executive Committee ("ExCo") and the Board are briefed on liquidity and funding on an ongoing basis.

On an annual basis, the Board attests to the Group's liquidity adequacy via the liquidity adequacy statement as part of ILAAP. The Group's ILAAP encompasses all aspects of liquidity and funding management, including planning, analysis, stress testing, control, governance, policy and contingency planning. This document is submitted to the Joint Supervisory Team and forms the basis of their supervisory review and evaluation process.

*Forms an integral part of the audited financial statements

2.2 Liquidity and funding risk

Management of the Group liquidity pool

The Group manages the liquidity pool on a centralised basis and is primarily comprised of government guaranteed bonds, balances with central banks and internal and external covered bonds. The composition of the liquidity pool is subject to limits recommended by the Risk function and approved by the Board.

At 31 December 2022, the Group held € 61,077 million (2021: € 67,240 million) in qualifying liquid assets "QLA"(1) of which € 7,845 million (2021: € 17,366 million) was not available due to repurchase, secured loans and other restrictions.

At 31 December 2022, the Group's available QLA was € 53,232 million (2021: € 49,874 million). During 2022, available QLA ranged from € 48,105 million to € 54,295 million (2021: € 43,602 million to € 50,932 million) and the average balance was € 50,242 million (2021: € 47,196 million).

(1) QLA are assets that can be readily converted into cash, either with the market or with the monetary authorities, and where there is no legal, operational or prudential impediments to their use as liquid assets.

The Group's available QLA increased in 2022 by € 3,358 million which was predominantly due to an increase in customer deposits in Ireland, senior debt issuance, offset by an increase in customer loans, covered bond maturities and securities financing activities where cash was exchanged for non-QLA eligible collateral.

Other contingent liquidity

The Group has access to other unencumbered assets providing a source of contingent liquidity which are not in the Group's liquidity pool. However, these assets may be monetised in a stress scenario to generate liquidity through use as collateral for secured funding or outright sale.

Liquidity stress testing

Liquidity stress testing is a key component of the ILAAP framework. The purpose of these tests is to ensure the continued stability of the Group's liquidity position within the Group's pre-defined liquidity risk tolerance levels.The Group undertakes liquidity stress testing that includes both firm specific and systemic risk events and a combination of both as a key liquidity control. Stressed assumptions are applied to the Group's liquidity buffer and liquidity risk drivers. This estimates the potential impact of a range of stress scenarios on the Group's liquidity position. Actions and strategies available to mitigate the impacts of the stress scenarios are evaluated as to their appropriateness. Liquidity stress test results are reported to the ALCo, ExCo and Board.

Liquidity regulation

The Group is required to comply with the liquidity requirements of the Single Supervisory Mechanism/Central Bank of Ireland and also with the requirements of local regulators in jurisdictions in which it operates. The Group adheres to these requirements.

	2022	2021
Liquidity metrics	**%**	%
Liquidity Coverage Ratio	**192**	203
Net Stable Funding Ratio	**164**	160

The Group monitors and reports its liquidity positions against Capital Requirements Regulation (CRR2) and other related liquidity regulations (LCR Delegated Act). It has fully complied with the minimum LCR and NSFR requirements of 100% during 2022 with ratios well in excess of this level.

Funding structure*

The Group's funding strategy is to deliver a sustainable, diversified and robust customer deposit base at economic pricing and to further enhance and strengthen the wholesale funding franchise with appropriate access to term markets to support core lending activities. The strategy aims to deliver a solid funding structure that complies with internal and regulatory policy requirements and reduces the probability of a liquidity stress, i.e. an inability to meet funding obligations as they fall due.

Customer deposits represent the largest source of funding for the Group with the core retail franchises and accompanying deposit base in both Ireland and the UK providing a stable and reasonably predictable source of funds.

	2022	2021
Customer accounts	**€ m**	€ m
Total	**102,359**	92,866
Of which:		
Euro	**89,816**	77,129
Sterling	**10,478**	13,200
US dollar	**1,925**	2,347
Other currencies	**140**	190

Customer accounts increased by € 9,493 million in 2022 driven by higher personal balances and inflows from banks exiting the Irish market. This was reflected in Euro current and demand deposit accounts offset by a reduction across all other Group significant currencies (GBP and USD). The decrease in GBP deposits was primarily due to the exit from the SME market in the UK. There was an underlying decrease in GBP and USD deposits of € 2,674 million on a constant currency basis coupled with a € 582 million decrease in the value of GBP offset by a € 112 million increase in the value of USD deposits due to currency movements.

*Forms an integral part of the audited financial statements

2.2 Liquidity and funding risk

Composition of wholesale funding(1)

The Group maintains access to a variety of sources of wholesale funding including bank deposits, securities financing, debt securities and subordinated debt. At 31 December 2022, total wholesale funding outstanding was € 10,019 million (2021: € 17,838 million) of which € 2,507 million is due to mature in less than one year (2021: € 879 million).

									2022
	< 1 month € m	**1–3 months € m**	**3–6 months € m**	**6–12 months € m**	**Total < 1 year € m**	**1–3 years € m**	**3–5 years € m**	**> 5 years € m**	**Total € m**
Deposits by central banks and banks	**22**	**210**	**—**	**—**	**232**	**96**	**186**	**—**	**514**
Securities financing	**798**	**100**	**—**	**—**	**898**	**—**	**—**	**—**	**898**
Senior debt	**—**	**252**	**—**	**126**	**378**	**2,084**	**2,071**	**1,646**	**6,179**
ACS	**—**	**999**	**—**	**—**	**999**	**—**	**—**	**25**	**1,024**
Subordinated liabilities and other capital instruments	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,404**	**1,404**
Total 31 December	**820**	**1,561**	**—**	**126**	**2,507**	**2,180**	**2,257**	**3,075**	**10,019**
Of which:									
Secured	**798**	**1,099**	**—**	**—**	**1,897**	**96**	**186**	**25**	**2,204**
Unsecured	**22**	**462**	**—**	**126**	**610**	**2,084**	**2,071**	**3,050**	**7,815**
	820	**1,561**	**—**	**126**	**2,507**	**2,180**	**2,257**	**3,075**	**10,019**

									2021
	< 1 month € m	1–3 months € m	3–6 months € m	6–12 months € m	Total < 1 year € m	1–3 years € m	3–5 years € m	> 5 years € m	Total € m
Deposits by central banks and banks	33	51	—	—	84	10,000	298	—	10,382
Securities financing	28	17	—	—	45	—	—	—	45
Senior debt	—	—	—	—	—	1,938	1,416	738	4,092
ACS	—	750	—	—	750	1,014	—	25	1,789
Subordinated liabilities and other capital instruments	—	—	—	—	—	—	—	1,530	1,530
Total 31 December	61	818	—	—	879	12,952	1,714	2,293	17,838
Of which:									
Secured	28	767	—	—	795	11,014	298	25	12,132
Unsecured	33	51	—	—	84	1,938	1,416	2,268	5,706
	61	818	—	—	879	12,952	1,714	2,293	17,838

(1) The maturity analysis has been prepared using the residual contractual maturity of the liabilities.

Deposits by central banks and banks decreased by € 9,868 million to € 514 million as a result of the € 10 billion repayment of TLTRO III borrowings in December 2022. For further details, see note 29 ‘Deposits by central banks and banks’ to the consolidated financial statements. Securities Financing increased € 853 million to € 898 million reflective of an increase in USD Collateralised Mortgage Obligations "CMO's" and standard bilateral bank repo activity - see currency split in 'Currency composition of wholesale funding' table overleaf.

During 2022, senior debt increased € 2,087 million primarily reflecting € 3,231 million issuance offset by € 847 million in bond buybacks and € 297 million in fair value hedge and USD foreign currency translation adjustments. Over the twelve months to 31 December 2022, outstanding asset covered securities (“ACS”) decreased € 765 million to € 1,024 million due to a contractual maturity and € 15 million in fair value hedge adjustments. For further details, see note 31 ‘Debt securities in issue’ to the consolidated financial statements.

2.2 Liquidity and funding risk

Currency composition of wholesale funding

At 31 December 2022, 75% (2021: 89%) of wholesale funding was in Euro with the remainder held in GBP and USD. The Group manages cross-currency refinancing risk against foreign exchange cash flow limits.

					2022					2021
	EUR € m	GBP € m	USD € m	Other € m	Total € m	EUR € m	GBP € m	USD € m	Other € m	Total € m
Deposits by central banks and banks	**220**	**290**	**4**	**—**	**514**	10,083	298	—	1	10,382
Securities financing	**401**	**—**	**497**	**—**	**898**	15	—	30	—	45
Senior debt	**4,449**	**—**	**1,730**	**—**	**6,179**	2,496	—	1,596	—	4,092
ACS	**1,024**	**—**	**—**	**—**	**1,024**	1,789	—	—	—	1,789
Subordinated liabilities and other capital instruments	**1,360**	**44**	**—**	**—**	**1,404**	1,486	44	—	—	1,530
Total wholesale funding	**7,454**	**334**	**2,231**	**—**	**10,019**	15,869	342	1,626	1	17,838
% of wholesale funding	**%**	**%**	**%**	**%**	**%**	%	%	%	%	%
	75	**3**	**22**	**—**	**100**	89	2	9	—	100

Encumbrance

An asset is defined as encumbered if it has been pledged as collateral, and as a result is no longer available to the Group to secure funding, satisfy collateral needs or to be sold. As part of managing its funding requirements, the Group encumbers assets as collateral to support wholesale funding initiatives. This would include covered bonds, securities repurchase agreements and other structures that are secured over customer loans. The Group manages encumbrance levels to ensure that the Group has sufficient contingent collateral to maximise balance sheet flexibility.

The Group's encumbrance ratio has decreased to 8% at 31 December 2022 (2021: 15%) with € 11,188 million of the Group's assets encumbered (2021: € 19,841 million). The decrease in encumbered assets was due to the € 10 billion TLTRO III early repayment in December 2022. The encumbrance level is based on the amount of assets that are required in order to meet regulatory and contractual commitments.

2.2 Liquidity and funding risk

Financial assets and financial liabilities by contractual residual maturity*

The following table analyses financial assets and financial liabilities by contractual residual maturity at 31 December 2022 and 2021(1):

						2022
	On demand € m	<3 months but not on demand € m	3 months to 1 year € m	1–5 years € m	Over 5 years € m	Total € m
Financial assets(2)						
Cash and balances at central banks	38,138	—	—	—	—	38,138
Derivative financial instruments(3)	—	114	93	624	1,680	2,511
Loans and advances to banks(4)	470	1,032	—	—	—	1,502
Loans and advances to customers(4)	1,954	1,297	2,568	18,262	37,150	61,231
Securities financing	—	849	1,943	3,490	—	6,282
Investment securities(5)	—	1,461	576	5,781	8,150	15,968
Other financial assets	—	592	—	—	—	592
	40,562	5,345	5,180	28,157	46,980	126,224
Financial liabilities(6)(7)						
Deposits by central banks and banks	22	210	—	282	—	514
Customer accounts	96,897	4,294	988	151	29	102,359
Securities financing	—	898	—	—	—	898
Derivative financial instruments(3)	—	72	150	923	1,837	2,982
Debt securities in issue	—	1,251	126	4,155	1,671	7,203
Subordinated liabilities and other capital instruments	—	—	—	—	1,404	1,404
Other financial liabilities	1,375	—	—	—	—	1,375
	98,294	6,725	1,264	5,511	4,941	116,735

						2021
	On demand € m	<3 months but not on demand € m	3 months to 1 year € m	1–5 years € m	Over 5 years € m	Total € m
Financial assets(2)						
Cash and balances at central banks	42,654	—	—	—	—	42,654
Derivative financial instruments(3)	—	58	28	211	585	882
Loans and advances to banks(4)	619	703	1	—	—	1,323
Loans and advances to customers(4)	2,213	1,501	1,993	16,776	35,910	58,393
Securities financing	—	853	1,324	1,713	—	3,890
Investment securities(5)	—	522	1,111	6,286	8,741	16,660
Other financial assets	—	886	—	—	—	886
	45,486	4,523	4,457	24,986	45,236	124,688
Financial liabilities(6)(7)						
Deposits by central banks and banks	27	57	—	10,298	—	10,382
Customer accounts	87,575	4,220	851	192	28	92,866
Securities financing	—	45	—	—	—	45
Derivative financial instruments(3)	—	116	104	170	672	1,062
Debt securities in issue	—	750	—	4,368	763	5,881
Subordinated liabilities and other capital instruments	—	—	—	—	1,530	1,530
Other financial liabilities	1,375	—	—	—	—	1,375
	88,977	5,188	955	15,028	2,993	113,141

(1) The Group has changed its classification of cash collateral placed with/received from derivative counterparties. This has resulted in the 2021 comparative period being restated with € 602 million in financial assets and € 110 million in financial liabilities moving from on demand to the 0-3 month maturity time-bucket.
(2) Excludes trading portfolio financial assets € 8 million (2021: € 8 million).
(3) Shown by maturity date of contract.
(4) Shown gross of expected credit losses.
(5) Excluding equity shares.
(6) A maturity of lease liabilities is disclosed in note 32.
(7) Excludes trading portfolio financial liabilities € 4 million (2021: € 2 million).

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2.2 Liquidity and funding risk

Financial liabilities by undiscounted contractual maturity*

The balances in the table below include the undiscounted cash flows relating to principal and interest on financial liabilities and as such will not agree directly with the balances on the consolidated statement of financial position. All derivative financial instruments have been analysed based on their contractual maturity undiscounted cash flows.

In the daily management of liquidity risk, the Group adjusts the contractual outflows on customer deposits to reflect the inherent stability of these deposits. Offsetting the liability outflows are cash inflows from the assets on the statement of financial position. Additionally, the Group holds a stock of high quality liquid assets, which are held for the purpose of covering unexpected cash outflows.

The following table analyses, on an undiscounted basis, financial liabilities by remaining contractual maturity at 31 December 2022 and 2021(1):

						2022
	On demand € m	**<3 months but not on demand € m**	**3 months to 1 year € m**	**1–5 years € m**	**Over 5 years € m**	**Total € m**
Financial liabilities(2)(3)						
Deposits by central banks and banks	**22**	**210**	**—**	**320**	**—**	**552**
Customer accounts	**96,897**	**4,296**	**999**	**158**	**49**	**102,399**
Securities financing	**—**	**903**	**—**	**—**	**—**	**903**
Derivative financial instruments	**—**	**245**	**703**	**1,652**	**688**	**3,288**
Debt securities in issue	**—**	**1,271**	**304**	**4,714**	**1,918**	**8,207**
Subordinated liabilities and other capital instruments	**—**	**—**	**38**	**150**	**1,883**	**2,071**
Other financial liabilities	**1,375**	**—**	**—**	**—**	**—**	**1,375**
	98,294	**6,925**	**2,044**	**6,994**	**4,538**	**118,795**

						2021
	On demand € m	<3 months but not on demand € m	3 months to 1 year € m	1–5 years € m	Over 5 years € m	Total € m
Financial liabilities(2)(3)						
Deposits by central banks and banks	27	57	—	10,124	—	10,208
Customer accounts	87,575	4,219	853	194	32	92,873
Securities financing	—	45	—	—	—	45
Derivative financial instruments	—	140	152	391	355	1,038
Debt securities in issue	—	771	94	4,586	768	6,219
Subordinated liabilities and other capital instruments	—	—	38	159	1,831	2,028
Other financial liabilities	1,339	—	—	—	—	1,339
	88,941	5,232	1,137	15,454	2,986	113,750

(1) The Group has changed its classification of cash collateral placed with/received from derivative counterparties. This has resulted in the 2021 comparative period being restated with € 110 million in financial liabilities moving from on demand to the 0-3 month maturity time-bucket.
(2) Excludes trading portfolio financial liabilities € 4 million (2021: € 2 million).
(3) A maturity of lease liabilities is disclosed in note 32.

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2.2 Liquidity and funding risk

Financial liabilities by undiscounted contractual maturity* (continued)

The undiscounted cash flows potentially payable under guarantees and similar contracts

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

The Group has given commitments to provide funds to customers under undrawn facilities. The undiscounted cash flows have been classified on the basis of the earliest date that the facility can be drawn. The Group does not expect all facilities to be drawn, and some may lapse before drawdown. For further details see note 40 'Contingent liabilities and commitments' to the consolidated financial statements.

The following table analyses undiscounted cash flows potentially payable under guarantees and similar contracts at 31 December 2022 and 2021:

						2022
	On demand € m	**<3 months but not on demand € m**	**3 months to 1 year € m**	**1–5 years € m**	**Over 5 years € m**	**Total € m**
Contingent liabilities	**802**	**—**	**—**	**—**	**—**	**802**
Commitments	**15,060**	**—**	**—**	**—**	**—**	**15,060**
	15,862	**—**	**—**	**—**	**—**	**15,862**

						2021
	On demand € m	<3 months but not on demand € m	3 months to 1 year € m	1–5 years € m	Over 5 years € m	Total € m
Contingent liabilities	819	—	—	—	—	819
Commitments	13,727	—	—	—	—	13,727
	14,546	—	—	—	—	14,546

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2.3 Financial risks

(a) Market risk

Market risk is the uncertainty of 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 Group.

Changes in customer behaviours and the relationship between wholesale and retail rates give rise to changes in the Group's exposure to market risk factors and are also an important component of market risk.

Identification and assessment

The key risks that the Group assumes in market risk as a result of its banking and trading book activities that have been identified as part of the MRA are:

- Credit spread risk is the exposure of the Group's financial position to adverse movements in the credit spreads of bonds held in the hold-to-collect-and-sell ("HTCS") securities portfolio. Credit spreads are defined as the difference between bond yields and interest rate swap rates of equivalent maturity. The HTCS bond portfolio is the principal source of credit spread risk.
- Interest rate risk in the banking book ("IRRBB") is the current or prospective risk to both the earnings and capital of the Group as a result of adverse movements in interest rates. Changes in interest rates impact the underlying value of the Group's assets, liabilities and off-balance sheet instruments and, hence, its economic value (or capital position). Similarly, interest rate changes will impact the Group's net interest income ("NII") through interest-sensitive income and expense effects; and
- The Group also assumes market risk through its trading book activities which relate to all positions in financial instruments (principally derivatives) that are held with trading intent or in order to hedge positions held with trading intent. Risks associated with valuation adjustments such as credit value adjustment ("CVA") and funding value adjustment ("FVA") are managed by the Group's Treasury function.

Market risk scenarios are developed to test the capital requirements for this risk in the quarterly stress testing process and the annual ICAAP.

Management and measurement*

The Market Risk Management framework and policies set out the key requirements for managing market risk. The key aspects of this are:

- The Group's Treasury function is responsible for managing market risk that has been transferred to it by the customer facing businesses and the Group's Asset and Liability Management ("ALM") function which exists within Finance. Treasury also has a mandate to trade on its own account in selected wholesale markets with risk tolerances approved on an annual basis through the Group's Risk Appetite process;
- The Group documents its annual Market Risk Strategy and Appetite statement as part of the annual financial planning cycle which ensures market risk aligns with the Group's strategic business plan; and
- Market risk is managed against a range of Board approved VaR limits which cover market risk in the trading book, interest rate risk and credit spread risk in the banking book. The Board approved limits are supplemented by a range of ALCo approved limits which include nominal, sensitivity limits and 'stop loss' limits.

Market risk is managed and measured using portfolio sensitivities, Value at Risk ("VaR") and stress testing. Interest rate gaps and sensitivities to various risk factors are measured and reported on a daily basis. In terms of the VaR metric, the Group calculates a daily historical simulation VaR to a 95% confidence level, using a one day holding period and based on one year of historic data. In addition to VaR, Capital at Risk ("CaR") is also measured to a one year(1) time horizon, a 99% confidence level and a longer set of data.

Credit risk issues inherent in the market risk portfolios are also subject to the credit risk framework that is described in Section 2.1.

(1)The Capital at Risk on core trading book positions is assessed using a ten day horizon, with the exception of FX which is assessed using a one year horizon.

Monitoring, escalating and reporting*

On a daily basis front office and risk functions receive a range of valuation, sensitivity and market risk measurement reports, while ALCo receives a monthly market risk commentary and summary risk profile. Market risk exposures are reported to the Group Risk Committee ("GRC") and Board Risk Committee ("BRC") on a monthly basis through the CRO Report.

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2.3 Financial risks

(a) Market risk *continued*

The following table sets out financial assets and financial liabilities at 31 December 2022 and 2021 subject to market risk analysed between trading and non-trading portfolios, showing the principal market risks to which the assets and liabilities are exposed:

				2022
		Market risk measures		
	Carrying amount	**Trading portfolios**	**Non-trading portfolios**	
	€ m	**€ m**	**€ m**	**Risk factors**
Assets subject to market risk				
Cash and balances at central banks	**38,138**	**—**	**38,138**	**Interest rate, foreign exchange**
Trading portfolio financial assets	**8**	**8**	**—**	**Interest rate, foreign exchange, equity**
Derivative financial instruments	**2,511**	**646**	**1,865**	**Interest rate, foreign exchange, credit spreads, equity, inflation swap rates**
Loans and advances to banks	**1,502**	**—**	**1,502**	**Interest rate, foreign exchange**
Loans and advances to customers	**59,613**	**—**	**59,613**	**Interest rate, foreign exchange**
Securities financing	**6,282**	**—**	**6,282**	**Interest rate, credit spreads, foreign exchange**
Investment securities	**16,270**	**—**	**16,270**	**Interest rate, foreign exchange, credit spreads, equity**
Liabilities subject to market risk				
Deposits by central banks and banks	**514**	**—**	**514**	**Interest rate, foreign exchange**
Customer accounts	**102,359**	**—**	**102,359**	**Interest rate, foreign exchange**
Securities financing	**898**	**—**	**898**	**Interest rate, credit spreads, foreign exchange**
Trading portfolio financial liabilities	**4**	**4**	**—**	**Interest rate, foreign exchange, equity**
Derivative financial instruments	**2,982**	**599**	**2,383**	**Interest rate, foreign exchange, credit spreads, equity, inflation swap rates**
Debt securities in issue	**7,203**	**—**	**7,203**	**Interest rate, credit spreads, foreign exchange**
Subordinated liabilities and other capital instruments	**1,404**	**—**	**1,404**	**Interest rate, credit spreads**

				2021
		Market risk measures		
	Carrying amount	Trading portfolios	Non-trading portfolios	
	€ m	€ m	€ m	Risk factors
Assets subject to market risk				
Cash and balances at central banks	42,654	—	42,654	Interest rate, foreign exchange
Trading portfolio financial assets	8	8	—	Interest rate, foreign exchange, equity
Derivative financial instruments	882	458	424	Interest rate, foreign exchange, credit spreads, equity, inflation swap rates
Loans and advances to banks	1,323	—	1,323	Interest rate, foreign exchange
Loans and advances to customers	56,508	—	56,508	Interest rate, foreign exchange
Securities financing	3,890	—	3,890	Interest rate, credit spreads, foreign exchange
Investment securities	16,934	—	16,934	Interest rate, foreign exchange, credit spreads, equity
Liabilities subject to market risk				
Deposits by central banks and banks	10,382	—	10,382	Interest rate, foreign exchange
Customer accounts	92,866	—	92,866	Interest rate, foreign exchange
Securities financing	45	—	45	Interest rate, credit spreads, foreign exchange
Trading portfolio financial liabilities	2	2	—	Interest rate, foreign exchange, equity
Derivative financial instruments	1,062	565	497	Interest rate, foreign exchange, credit spreads, equity, inflation swap rates
Debt securities in issue	5,881	—	5,881	Interest rate, credit spreads, foreign exchange
Subordinated liabilities and other capital instruments	1,530	—	1,530	Interest rate, credit spreads

2.3 Financial risks

(a) Market risk *continued*

Market risk profile

The table below shows the sensitivity of the Group's banking book to an immediate and sustained +/- 100 basis point, +25 basis point and +50 basis point movement in interest rates, in terms of the impact on net interest income on a forward looking basis over a twelve month period, assuming no change in the balance sheet.

Sensitivity of projected net interest income to interest rate movements:

December 2022	**€ m - 100bps**	**€ m +25bps**	**€ m +50bps**	**€ m + 100bps**
Euro	**(324)**	**72**	**146**	**288**
Sterling	**(45)**	**11**	**22**	**45**
Other (mainly US $)	**(18)**	**5**	**9**	**18**
Total	**(387)**	**88**	**177**	**351**

December 2021	€ m - 100 bps	€ m +25bps	€ m +50bps	€ m + 100bps
Euro	(193)	13	33	195
Sterling	(59)	14	29	57
Other (mainly US $)	(20)	5	10	20
Total	(272)	32	72	272

The above sensitivity table is computed under the assumption of an unchanged balance sheet and that all market rates (Risk Free Rates/Euribors/Swaps) move upwards or downwards in parallel. Interest rate sensitivity increased during the year due to a significant increase in market interest rates and also to an increase in net floating assets on the balance sheet. These factors outweighed the increased use of interest rate derivatives for hedging purposes. Regarding the static balance sheet assumption, it is acknowledged that in a higher rate environment it may be more likely that balances would migrate from interest free current accounts to rate paying deposit accounts which would have the impact of reducing NII sensitivity.

Group interest rate and foreign exchange rate VaR are calculated to a 95% confidence level with a one day holding period, and equity VaR is calculated to a 99% confidence level with a one day holding period. All VaR measures remained within limits throughout 2022 and at 31 December 2022, interest rate VaR stood at € 13.87 million, foreign exchange rate VaR at € 0.14 million and equity VaR at € 0.12 million. The Group recognises the limitations of VaR models, and supplements its VaR measures with stress tests which draw from a longer set of historical data and also with sensitivity measures.

Interest rate sensitivity*

The net interest rate sensitivity of the Group at 31 December 2022 and 2021 is illustrated in the following table. The table sets out details of those assets and liabilities whose values are subject to change as interest rates change within each contractual repricing time period. Details regarding assets and liabilities which are not sensitive to interest rate movements are included within non-interest bearing or trading captions. The table shows the sensitivity of the statement of financial position at one point in time and is not necessarily indicative of positions at other dates. In developing the classifications used in the table, it has been necessary to make certain assumptions and approximations in assigning assets and liabilities to different repricing categories.

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

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	0<1 Month	1<3 Months	3<12 Months	1<2 Years	2<3 Years	3<4 Years	4<5 Years	5 years +	Non-interest bearing	Trading	2022* Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Assets											
Trading portfolio financial assets	—	—	—	—	—	—	—	—	—	8	8
Loans and advances to banks	1,355	—	—	—	—	—	—	—	147	—	1,502
Loans and advances to customers	31,041	7,337	3,435	3,778	4,449	5,137	4,949	1,105	(1,618)	—	59,613
Securities financing	6,282	—	—	—	—	—	—	—	—	—	6,282
Investment securities	2,078	1,783	842	1,202	999	1,671	2,117	6,736	(1,158)	—	16,270
Other assets	37,564	—	—	—	—	—	—	—	7,867	646	46,077
Total assets	78,320	9,120	4,277	4,980	5,448	6,808	7,066	7,841	5,238	654	129,752
Liabilities											
Deposits by central banks and banks	514	—	—	—	—	—	—	—	—	—	514
Customer accounts	41,619	384	919	143	2	—	—	26	59,266	—	102,359
Securities financing	798	100	—	—	—	—	—	—	—	—	898
Trading portfolio financial liabilities	—	—	—	—	—	—	—	—	—	4	4
Debt securities in issue	—	1,253	128	1,688	1,953	750	1,000	775	(344)	—	7,203
Subordinated liabilities and other capital instruments	—	—	—	500	—	1,000	—	116	(212)	—	1,404
Other liabilities	—	—	—	—	—	—	—	—	4,519	590	5,109
Equity	—	—	—	—	—	—	—	—	12,261	—	12,261
Total liabilities and equity	42,931	1,737	1,047	2,331	1,955	1,750	1,000	917	75,490	594	129,752
Derivatives affecting interest rate sensitivity	19,910	1,295	(7,057)	(8,521)	(2,600)	(718)	678	(2,987)	—	—	
Interest sensitivity gap	15,479	6,088	10,287	11,170	6,093	5,776	5,388	9,911	(70,252)	60	
Cumulative interest sensitivity gap	15,479	21,567	31,854	43,024	49,117	54,893	60,281	70,192	(60)	—	
(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Interest sensitivity gap	13,432	5,902	7,475	10,322	5,596	4,906	5,036	8,205	(62,509)	461	
Cumulative interest sensitivity gap	13,432	19,334	26,809	37,131	42,727	47,633	52,669	60,874	(1,635)	(1,174)	
($ in euro equivalents)	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	
Interest sensitivity gap	1,688	140	477	61	1	103	2	25	(1,115)	(424)	
Cumulative interest sensitivity gap	1,688	1,828	2,305	2,366	2,367	2,470	2,472	2,497	1,382	958	
(£ in euro equivalents)	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	
Interest sensitivity gap	411	(38)	2,335	787	496	767	350	1,681	(6,541)	23	
Cumulative interest sensitivity gap	411	373	2,708	3,495	3,991	4,758	5,108	6,789	248	271	
(Other currencies in euro equivalents)	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	
Interest sensitivity gap	(52)	84	—	—	—	—	—	—	(87)	—	
Cumulative interest sensitivity gap	(52)	32	32	32	32	32	32	32	(55)	(55)	

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2.3 Financial risks – (a) Market risk – Interest rate sensitivity *continued*

											2021*
	0<1 Month	1<3 Months	3<12 Months	1<2 Years	2<3 Years	3<4 Years	4<5 Years	5 years +	Non-interest bearing	Trading	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Assets											
Trading portfolio financial assets	—	—	—	—	—	—	—	—	—	8	8
Loans and advances to banks	1,047	—	1	—	—	—	—	—	275	—	1,323
Loans and advances to customers	35,168	7,191	3,498	2,996	3,454	2,757	2,759	682	(1,997)	—	56,508
Securities financing	3,890	—	—	—	—	—	—	—	—	—	3,890
Investment securities	1,929	783	1,071	1,989	1,222	918	1,459	6,716	847	—	16,934
Other assets	42,109	—	—	—	—	—	—	—	6,645	458	49,212
Total assets	84,143	7,974	4,570	4,985	4,676	3,675	4,218	7,398	5,770	466	127,875
Liabilities											
Deposits by central banks and banks	10,382	—	—	—	—	—	—	—	—	—	10,382
Customer accounts	50,274	385	850	162	—	—	—	26	41,169	—	92,866
Securities financing	28	17	—	—	—	—	—	—	—	—	45
Trading portfolio financial liabilities	—	—	—	—	—	—	—	—	—	2	2
Debt securities in issue	—	750	—	2,162	1,633	500	750	25	61	—	5,881
Subordinated liabilities and other capital instruments	—	—	—	—	500	—	1,000	121	(91)	—	1,530
Other liabilities	—	—	—	—	—	—	—	—	2,944	565	3,509
Equity	—	—	—	—	—	—	—	—	13,660	—	13,660
Total liabilities and equity	60,684	1,152	850	2,324	2,133	500	1,750	172	57,743	567	127,875
Derivatives affecting interest rate sensitivity	10,359	(2,319)	(1,803)	(2,199)	(1,966)	(228)	(1,434)	(410)	—	—	
Interest sensitivity gap	13,100	9,141	5,523	4,860	4,509	3,403	3,902	7,636	(51,973)	(101)	
Cumulative interest sensitivity gap	13,100	22,241	27,764	32,624	37,133	40,536	44,438	52,074	101	—	
(Euro currency amounts)	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	
Interest sensitivity gap	13,834	4,863	3,100	4,104	4,151	3,003	2,972	5,870	(43,232)	(103)	
Cumulative interest sensitivity gap	13,834	18,697	21,797	25,901	30,052	33,055	36,027	41,897	(1,335)	(1,438)	
($ in euro equivalents)	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	$ m	
Interest sensitivity gap	1,596	586	56	(20)	(32)	30	150	59	(1,316)	(18)	
Cumulative interest sensitivity gap	1,596	2,182	2,238	2,218	2,186	2,216	2,366	2,425	1,109	1,091	
(£ in euro equivalents)	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	
Interest sensitivity gap	(2,210)	3,633	2,367	776	390	370	770	1,707	(7,362)	19	
Cumulative interest sensitivity gap	(2,210)	1,423	3,790	4,566	4,956	5,326	6,096	7,803	441	460	
(Other currencies in euro equivalents)	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	Other € m	
Interest sensitivity gap	(120)	59	—	—	—	—	10	—	(63)	1	
Cumulative interest sensitivity gap	(120)	(61)	(61)	(61)	(61)	(61)	(51)	(51)	(114)	(113)	

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2.3 Financial risks

(a) Market risk *continued*

Interest rate benchmark reform

Authorities and regulators have substantively facilitated the market's transition from interbank offered rates, referred to as "IBOR" benchmark rates (e.g. LIBOR), to alternative Risk Free Rates ("RFRs"). In line with regulatory guidance and transformed market practice, SONIA (Sterling Overnight Index Average) has effectively replaced GBP LIBOR and SOFR (Secured Overnight Financing Rate) has been adopted to replace USD LIBOR in pricing new loans.

The Group established a bank-wide Interest Rate Benchmark Reform Transition Programme with sponsorship from the Chief Financial Officer to manage the effort. The Programme was substantively completed by early 2022, having overseen the successful execution of related business readiness, technology enhancements, contract re-papering, customer communication and conduct activities.

Residual IBOR transition activities are now being undertaken by the relevant business and support functions under established procedures. The 2022 agenda has been focussed on completing the transition of residual Treasury GBP and USD LIBOR transactions (c. € 700 million across derivative and funding activities, including the reduction of outstanding GBP synthetic LIBOR derivatives c. £ 360 million), and managing the transition of $ 2.3 billion USD LIBOR facilities associated with our Corporate Banking business as at 31 December 2022.

Structural foreign exchange risk

Structural foreign exchange risk is the exposure of the Group's capital ratios to changes in exchange rates and results from net investment in subsidiaries, associates and branches, the functional currencies being currencies other than Euro. The Group is exposed to foreign exchange risk as it translates foreign currencies into Euro at each reporting period and the currency profile of the Group's capital may not necessarily match that of its assets and risk-weighted assets.

Exchange differences on structural exposures are recognised in 'other comprehensive income' in the financial statements. The Group ALCo monitors structural foreign exchange risk and the foreign exchange sensitivity of consolidated capital ratios. This impact is measured in terms of basis point sensitivities using scenario analysis.

The table below shows the sensitivity of the Group's fully loaded CET1 ratio to a hypothetical and sustained movement in GBP/EUR and USD/EUR foreign exchange rates.

	31 December	
Sensitivity of CET 1 fully loaded capital to foreign exchange movements (unaudited)	**2022**	2021
+ 10% move in GBP and USD FX rates	**(0.18)%**	(0.18)%
– 10% move in GBP and USD FX rates	**0.18 %**	0.20 %

The above analysis is subject to certain simplifying assumptions such as GBP/EUR and USD/EUR foreign exchange rates moving in the same direction and at the same time.

(b) Pension risk

Pension risk is the risk that:

- The funding position of the Group's defined benefit schemes would deteriorate to such an extent that additional contributions would be required to cover its funding obligations towards current and former employees;
- The capital position of the Group is negatively affected as funding deficits will be fully deductible from regulatory capital; and
- There could be a negative impact on industrial relations if the funding level of the scheme was to deteriorate significantly.

Risk identification and assessment

The Group maintains a number of defined benefit pension schemes for current and former employees. All defined benefit schemes operated by the Group closed to future accrual no later than the 31 December 2013 and staff transferred to defined contribution schemes for future pension benefits.

Each scheme has a separate trustee board and the Group has agreed funding plans to deal with deficits where they exist. As part of any funding agreement, the Group engages with each trustee regarding an appropriate investment strategy to reduce the risk in that scheme.

Irish schemes that are deemed to have a deficit under the Minimum Funding Standard must prepare funding plans to address this situation in a timely manner and submit them to the Pensions Authority for approval.

The IAS 19 valuation of the pension scheme assets and liabilities may vary which could impact on the Group's capital. The Group works with the Trustees of each scheme to monitor the performance of investments and estimates of future liability to identify deficits.

Given that variability in the value of the pension scheme assets and liabilities can impact on the Group's capital, the key processes through which pension risk is evaluated are the Internal Capital Adequacy Assessment Process ("ICAAP") as well as quarterly internal stress tests and monthly reporting of pension risk against risk appetite.

Management and measurement*

The pension risk framework and policies set out the key risk management rules in place for this risk. The ability of the pension schemes to meet the projected pension payments is managed by the Trustees through the active management of the investment portfolios. Although the Group has interaction with the trustees, it cannot direct the investment strategy of the schemes.

The Group has developed a strategy for each of its defined benefit schemes which include the following steps:

1. All defined benefit schemes are closed to future accrual.
2. They have funding plans (or are funded as required for the US schemes) and each defined benefit scheme has an investment strategy in place.
3. All schemes have a strategy of de-risking in line with their regulatory requirements, funding positions and funding plans, taking into account the nature of their liabilities.

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*Forms an integral part of the audited financial statements

2.3 Financial risks

(b) Pension risk *continued*

As part of a strategy to increase the holding in inflation linked assets, an allocation to a Liability Driven Investment ("LDI") portfolio is used. The LDI fund is comprised of a mixture of nominal bonds, inflation linked bonds and inflation derivatives. Inflation linked bond holdings are relatively stable, accounting for 30% of assets (31% at 31st December 2021). The scheme maintained a similar weighting in equities in 2022 and has removed the equity protection strategy that previously was in place.

Independent actuarial valuations for the AIB Group Irish Pension Scheme and the AIB Group UK Pension Scheme are carried out on a triennial basis by the Schemes' actuary, Mercer. The most recent valuation of the Irish scheme was carried out at 30 June 2021 and reported the scheme to be in surplus. The next actuarial valuation of the Irish scheme will be 30 June 2024. This actuarial valuation report is provided at least every 3 years to the trustees in order to set out the Target Funding level of the scheme along with a contribution recommendation if one is required. No deficit funding is anticipated at this time as the Irish scheme continues to meet the minimum funding standard.

The most recent valuation of the UK scheme was carried out at 31 December 2020. The next actuarial valuation of the UK scheme will be 31 December 2023. The Group and the Trustee of the UK scheme agreed funding payments under an arrangement agreed in December 2019 which is described below.

As part of the investment strategy in the UK scheme, it was significantly de-risked in December 2019. The Group agreed a revised funding arrangement for the UK scheme with the Scheme Trustee to support the purchase of the pensioner buy-in policy in respect of the pensioner members and an assured payment policy ("APP") in respect of the deferred members. A contribution of £ 18.5 million was made in 2022. Under this funding arrangement, the Group also expects to make payments of £ 18.5 million in 2023, with a final balancing payment, based on latest estimates of c. £27 million. This is subject to change prior to finalisation.

Monitoring, escalating and reporting*

Pension risk is monitored and controlled in line with the requirements of the Group's pension risk framework and policy. The surplus or deficit is monitored on a monthly basis by the Group's risk team and is currently reported monthly in both the financial risk report to the Group Assets & Liabilities Committee and the Group Chief Risk Officer ("CRO") report to Group Risk Committee and Board Risk Committee.

Pension risk is also included in the quarterly internal stress test. The output of quarterly stress tests is reviewed by ALCo and on an annual basis an ICAAP Report is produced which is a comprehensive analysis of the Group's capital position in base and stress scenarios over a three year horizon. This document is reviewed and approved by the Board and is submitted to the Joint Supervisory Team.

The pension capital at risk exposure is measured and reported monthly in the CRO report against a Group Risk Appetite Statement watch trigger. While the Group has taken certain risk mitigating actions, a level of volatility associated with pension funding remains due to potential financial market fluctuations and possible changes to pension and accounting regulations.

(c) Equity risk

Banking book equity investment risk refers to the possibility of losses arising in the equity investment portfolio of the Group due to changes in the economic value of the investments. Where the uncertainty is expressed as a potential loss in value, it represents a risk to the income and capital position of the Group.

Identification and assessment

All equity proposals are considered to ensure all aspects of the proposal are fully and consistently addressed. Where a proposal for a new equity investment or divestment opportunity arises, the business sponsor must engage with the Equity Capital team when developing the proposal, and liaise with Finance to assess the accounting and regulatory implications. The business reviews and comments on all proposals and recommends proposals for approval through the appropriate governance process. All new investments need to adhere to relevant regulatory and accounting requirements.

Management and measurement

Exposures are reported on in line with Risk appetite requirements. Risk measurement is also captured through stress testing. A forward looking stress test must be produced on a quarterly basis. The stress test is used to assess the impact of severe but plausible shocks to underlying risk factors on the capital requirements for the business. Management projections of the future business mix must be factored into the analysis and be consistent with projections included in business area plans for equity risk.

Monitoring, escalating and reporting

The Equity Capital team reviews risk exposure levels on an on-going basis, ensures there is no undue risk concentration and considers whether the level of risk exposures remains appropriate. Exposures are currently reported monthly to Risk and the Group Assets & Liabilities Committee ("ALCo") and any limit/ policy breaches or exceptions are recorded that arose during the period.

Risk provide management with an independent perspective on the risk-taking activities within the equity investment portfolio monthly via the Financial Risk ALCo report, RAS limit report and the CRO report. Additionally, there is a quarterly valuation review process in place and Board and segment limits are applied and reported on and an escalation process is set out in the Equity Policy.

*Forms an integral part of the audited financial statements

2.4 Business model risk

Business model risk is the risk of not achieving the agreed Strategy or approved business plan either as a result of an inadequate implementation plan, or failure to execute the implementation plan as a result of inability to secure the required investment. This also includes the risk of implementing an unsuitable Strategy, or maintaining an obsolete business model, in light of known internal and external factors.

Identification and assessment

The Group's material risk assessment process identifies the key elements of business model risk. The process includes identifying the associated sub-risks such as strategic planning risk, strategic execution risk and governance risk and the emerging risk drivers including inflationary pressures, macroeconomic uncertainty and market volatility.

The Group also identifies and assesses the risk as part of its integrated planning process, which encapsulates strategic, business and financial planning. This process drives delivery of strategic objectives aligned to the Group's risk appetite and enables measurable business objectives to be set for management aligned to the short, medium and long term strategy of the Group. The outcomes of these processes form the basis of the Group's ICAAP and ILAAP processes.

Every year, the Group prepares three-year business plans at a Group level based on macroeconomic and market forecasts across a range of scenarios (including a range of "downside" scenarios). The plan includes an evaluation of planned performance against a suite of key metrics, supported by detailed analysis and commentary on underlying trends and drivers, across income statement, balance sheet and business targets. This assessment includes discussions on new lending volumes and pricing, deposits volumes and pricing, other income, cost management initiatives and credit performance. The plan is subject to robust review and challenge through the governance process including an independent second line of defence review and challenge by the Risk function prior to approval by the Board. The impact of inorganic initiatives such as the acquisitions of Goodbody and the Ulster Bank commercial loan book, the acquisition of the Ulster Bank performing tracker mortgage portfolio and the Great West Life Co. joint venture on the Group's financial outcomes and on the business model risk profile is assessed as part of the approval process and through the financial planning process.

The Group plan is supported by detailed business unit plans. Each business unit plan is aligned to the Group strategy and risk appetite. The business plan typically describes the market in which the business operates, market and competitor dynamics, business strategy, financial assumptions underpinning the strategy, actions/investment required to achieve financial outcomes and any risks/opportunities to the strategy.

The Group reviews underlying assumptions on its external operating environment to identify potential risks and, by extension, its strategic objectives on a periodic basis, the frequency of which is determined by a number of factors including the speed of change of the economic environment, changes in the financial services industry and the competitive landscape, regulatory change and deviations in actual business outturn from strategic targets.

Management and measurement

At a strategic level, the Group manages business model risk within its risk appetite framework, by setting limits in respect of measures such as financial performance, portfolio concentration and risk-adjusted return. At a more operational level, the risk is mitigated through periodic monitoring of variances to plan. Where performance against plan is outside agreed tolerances or risk appetite metrics, proposed mitigating actions are presented and evaluated, and tracked thereafter. During the year, periodic forecast updates for the full year financial outcome may also be produced. The frequency of forecast updates during each year will be determined based on prevailing business conditions.

At an individual level, planning targets translate into accountable objectives to enable performance tracking across the Group and to facilitate formulation and review of Executive Committee performance scorecards.

Monitoring, escalating and reporting

Performance against plan is monitored at business level on a monthly basis and reported to senior management teams within the business. At an overall Group level, performance against plan is monitored as part of the monthly CFO report which is discussed at Executive Committee and Board. Monitoring of the risk profile via the CRO report, including performance against risk appetite is presented to the Board Risk Committee. The escalation process, as stipulated under the RAS policy, is commenced in the event of a breach of either the RAS watch trigger or limit for any of the metrics. This ensures Board and Regulator notification within approved timeframe, when appropriate.

2.5 Operational risk

Operational risk is the risk arising from inadequate or failed internal processes, people and systems, or from external events. This includes legal risk but excludes strategic and reputational risk.

Identification and assessment

Operational risk is identified and assessed by the Group's material risk assessment which is a top-down process and it also identifies the following nine material operational sub risks: cyber risk (information security), change risk, physical safety and property risk, continuity and resilience risk, product and proposition risk, third party risk, IT risk, data risk (including data quality risk) and legal risk (the potential for loss arising from the uncertainty of legal proceedings and potential legal proceedings). The risk and control assessment is the Group's core bottom-up process for the identification and assessment of operational risk across the Group.

The risk and control assessment process serves to ensure that key operational risks are proactively identified, evaluated, monitored and reported, and that appropriate action is taken. Self-assessment of risks is completed at business unit level and is recorded on SHIELD which is the Group's governance, risk and compliance system. Service assessments and risk assessments are performed on all critical or important outsourcing arrangements and are recorded on SHIELD.

SHIELD provides all areas with one consistent view of the operational risks, controls, actions and events across the Group. Risk and control assessments are regularly reviewed and updated by business unit management.

2.5 Operational risk *continued*

The potential impact of the identified risks are then assessed through the ICAAP and stress testing processes where scenarios relating to operational risk such as internal/external fraud, systems failure, property damage, third party technical issues and disruptive weather conditions, are developed and incorporated into the overall outcomes.

Management and measurement

The Operational Risk Framework sets out the principles, supporting policies, roles and responsibilities, governance arrangements and processes for operational risk management across the Group. Each sub risk has a supporting policy in place to outline the minimum control standards and core policy rules that must be adhered to. The nine material operational sub risks are owned and actively monitored under the Operational Risk Framework and underlying Policies to ensure material operational risks are managed effectively within the Group RAS limits. The Operational Risk Framework and policies set out the process for risk and control assessments, identification of the key non-financial risks arising from key business processes and activities. It also includes the process for the escalation of the relevant RAS metric limit and watch-trigger breaches.

In addition, operational risk is partially hedged through an insurance programme in place, including a self-insured retention, to cover a number of risk events which would fall under the operational risk umbrella. These include financial lines policies such as:

- comprehensive crime/computer-crime/cyber/professional indemnity/civil liability;
- employment practices liability; and
- directors' and officers' liability and a suite of general insurance policies to cover such things as property and business interruption, terrorism, employers and public liability and personal accident.

Operational risk is measured through a series of risk appetite metrics and key risk indicators, these include metrics on operational risk losses and events; cyber security, change initiatives, quality and accessibility of priority data, service availability and third party risks.

Monitoring, escalating and reporting

In addition to risk appetite measures and limits, operational risk is monitored on a regular basis via the Group's risk governance committees. This provides senior management, through the Operational Risk Committee and Group Risk Committee and the Board through Board Risk Committee with timely updates on the Group's operational risk profile. The profile update details the current status of the Group's key operational risks and includes an overview of current trends. It also includes an update on recent major risk events and any remediation actions/lessons identified following events.

Operational risk events are identified and captured in the SHIELD system. These are escalated through a defined process depending on impact and severity. Root causes of events are determined, and action plans are implemented to ensure there are enhanced controls in place to keep customers and the business safe.

2.6 Conduct risk

Conduct risk is defined as the risk that inappropriate actions or inactions by the Group cause poor or unfair customer outcomes or negatively impact on market integrity.

The effective management of conduct risk requires embedding of a strong conduct culture with a customer centric approach to conduct risk management as articulated in the Group's values, behaviours and code of conduct.

The conduct risk priorities for the Group include:

- A Customer First culture, as articulated by the Brand Values, Behaviours and Code of Conduct, is embedded and demonstrated throughout the organisation;
- A mature Group Conduct Risk Framework aligned with the Group Strategy, is embedded in the organisation that provides oversight of conduct risks at Executive Committee and Board level; and
- Customers, existing and new, are treated in a fair and transparent way.

Identification and assessment

The Group's material risk assessment and risk and control assessment forms the basis for identifying the key elements of conduct risk.

The Group has identified a number of risk drivers pertaining to conduct risk and these are reviewed on an annual basis as part of the material risk assessment process. These include, inter alia:

- Monitoring trends of customer complaints on a regular basis;
- The pace and complexity of changing industry best practice and clarifications received in relation to regulatory expectations can drive an accelerated process for changing products, practices, services and cultures;
- Potential of unintended consequences arising from the scale and pace of inorganic and strategic change;
- Understanding the implications of the evolving global, European and Irish economic landscape on short to medium term interest rate environment;
- Increased competition in terms of resources, skills, industry participants remuneration practices and customer bases;
- Negative macroeconomic environment can result in unexpected bank and/or employee behaviour and potential increased market instability could result in market conduct risk; and
- Environmental, Social and Governance risks ("ESG") may result in poor customer outcomes such as incorrect risk preferences or failing to identify climate impacts on product offerings

Conduct risks are identified during the risk and control assessment process which provides documentary evidence of risk assessments. It determines the risk profile of the business, drives risk management and actions plans including key risk indicator development and reporting. A risk register of the Group's material risks is also maintained. The risk and control assessment has identified a number of key conduct risks relating to customer satisfaction, employee behaviour and clients, business and product practice.

Group Conduct completes horizon scanning and benchmarking to identify future conduct risk considerations within business and regulatory environments. In addition, Risk, through the Compliance and Group Risk Assurance function, identifies upstream conduct risk and communicate to the relevant business areas.

2.6 Conduct risk *continued*

Management and measurement

The Group has a Conduct Risk Framework and Conduct Risk Policy which applies to the Group including all subsidiaries. This Framework and Policy, as well as other supporting policies, are in place to drive the consistent management of this risk

This Policy includes the approach to vulnerable customers, which is defined as recognising in customers when they are in need of additional care, support or protection. The Vulnerable Customer team are in place to ensure governance structures are in place for the oversight of the Vulnerable Customer Programme, developing and ensuring execution of the Group Vulnerable Customer Action Plan Developing and delivering group level training for staff on Customer Vulnerability issues.

Conduct risk measurement should be considered qualitatively under normal and stressed conditions. Any new material business development or change in strategy would also warrant an independent assessment of conduct risks and potential impact on reputation.

The Group Head of Conduct and team provides independent oversight and governance of conduct risk across the Group (and is a mandatory approver of product / propositions proposals), including training and awareness building.

An approved Group Conduct Strategy, aligned with the Group’s Purpose, Strategy and Values, is supported by annual Business Conduct Action plans, delivering against key strategic objectives, ensuring continued progress on embedding conduct and meeting evolving regulatory expectations.

The Conduct Risk RAS is recommended by the Compliance Function and consists of qualitative statements and key risk indicator ("KRI") metrics. The KRIs establish specific limits, ceilings and floors that relate to the qualitative RAS. Risk, through the Compliance & Group Risk Assurance function, provide independent challenge of potential and identified conduct risks and provide advice to business segments on conduct risk issues.

Business conduct dashboards measure key management information trends under the five key conduct risk areas, as reflected in the Group’s conduct strategy.

The Group Head of Conduct in the first line of defence is a member of a number of key working groups and fora regarding the management and measurement of conduct risk, and provides challenge on RAS metrics which are monitored monthly, customer solutions and the resolution of materialised conduct risks.

Monitoring, escalating and reporting

The Group Conduct Committee together with Business Conduct Committees operating to standard terms of reference actively drive the conduct agendas and manage conduct risk within their businesses. Conduct risks are assessed and monitored across the Group in line with risk management procedures. Significant conduct events are assessed and remedial actions implemented where necessary. These are escalated based on a materiality assessment, in line with the Conduct Risk Framework.

Conduct risks and controls are monitored on a monthly basis via the Group’s risk governance committees. This provides the Group Risk Committee and the Board Risk Committee with relevant updates on the conduct risk profile. The profile update details the current status of the Group’s key conduct risks, includes an overview of current trends, an update on recent significant events and any remediation actions or lessons identified following events.

From a Prudential perspective the Group reports the financial impact of conduct risk events through the annual operational risk ICAAP, quarterly COREP submissions and the biennial EBA Stress Testing exercise.

The Regulatory and Conduct Risk Committee (“RCR”) is the forum that provides risk oversight of regulatory and conduct risks of the Group including oversight of its subsidiaries. The RCR was established by, and is accountable to, the Group Risk Committee to oversee regulatory and conduct risks across the Group. This includes monitoring and reviewing the Group’s regulatory and conduct risk profile, compliance with risk appetite and other approved policy limits, reviewing risk policies and recommending these for approval to the Group Risk Committee.

2.7 Regulatory compliance risk

Regulatory compliance risk is defined in the Regulatory Risk Management Framework as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation which the Group may suffer as a result of its failure to comply with principal laws, regulations, rules, related self-regulatory codes and related supervisory expectations which relate to the Group’s regulated banking and financial service activities i.e., those activities which the Group is licenced to conduct business.

Identification and assessment

The Group’s material risk assessment and risk and control assessment forms the basis for identifying the key drivers of regulatory compliance risk. The associated sub-risks include prudential regulation, conduct of business regulation, financial crime and data protection. The material risk assessment has identified other key risks in this regard as:

- The complexity and volume of regulatory change and the rapidly evolving international sanctions environment, raises the risk of regulatory compliance failure and/or regulatory sanction.

The key areas of focus of both the Central Bank of Ireland (“CBI”) and the Joint Supervisory Teams (“JST”) includes:

- Regulated firms that are subject to the regulation from the CBI and JST are fully compliant with their obligations and are treating their customers, existing and new, in a fair and transparent way, including the embedding of directives and regulations;
- Continued focus on the full implementation of the suite of prudential requirements including Capital Requirements Directive (“CRD”) and Capital Requirements Regulation (“CRR”), and the binding technical standards and guidelines;
- CBI Consumer Protection Outlook report and Dear CEO letters; and
- Climate and ESG issues where the CBI has noted its expectations for firms to follow including the requirements relating to governance, risk management frameworks, scenario analysis, disclosures and strategy, and business model risks.

Management and measurement

The Regulatory Compliance Risk Management Framework sets out the principles, roles and responsibilities, and governance arrangements and is supported by a number of key policies.

2.7 Regulatory compliance risk *continued*

The Group Regulatory Compliance Risk Management Framework and the regulatory compliance risk management lifecycle commences with upstream regulation risk management. The Regulatory Change Team ("RCT") reside within the Regulatory Compliance Team, Compliance & Assurance and provide oversight and support in respect of regulatory change risk management. The approach to regulatory change has been designed to ensure regulatory requirements are clearly understood from the outset with end-to-end traceability monitored by the Regulatory Forum as part of Group Programme Board ("GPB"). It involves an up-front partnership between the Regulatory Change Team and Change Operations to ensure business stakeholders are identified with roles and accountabilities assigned. The process provides a platform for clear monitoring, communication, effective oversight, robust challenge and the pursuit of regulatory compliance in a collaborative manner across both first and second line of defence.

The regulatory compliance risk management lifecycle is reviewed on an annual basis by the various teams within Compliance. In order to produce a comprehensive holistic view of regulatory compliance risks across the Group, detailed risk assessments are completed based on the premise of identifying the regulatory compliance risks which pose the most significant threat to the Group. Risk identification and assessment is carried out through a combined top-down and bottom-up approach. The output of this risk assessment process is to produce the Compliance & Risk Assurance Plan.

Monitoring, escalating and reporting

Regulatory compliance risks are monitored on a monthly basis via the Group's risk governance committees. This occurs initially at the Regulatory and Conduct Risk Committee ("RCR") and key items are brought through to Group Risk Committee and Board Risk Committee for discussion and escalation where appropriate. This includes an update on recent significant events and any remediation actions or lessons identified following events.

The RCR is the forum that provides risk oversight of regulatory and conduct risks of the Group including oversight of its subsidiaries. The RCR was established by, and is accountable to, the Group Risk Committee, to oversee regulatory and conduct risks across the Group, including monitoring, reviewing the regulatory and conduct risk profile, compliance with risk appetite and other approved policy limits. It is also responsible for reviewing risk policies and recommending these for approval to the Group Risk Committee.

Regulatory Compliance establish written guidance to staff on the appropriate implementation of relevant laws, rules and standards through relevant regulatory compliance policies and support the first line business units in understanding and implementing their regulatory compliance obligations and management of the associated regulatory compliance risks in line with the Regulatory Compliance and Conduct Risk Appetite Statements. As part of their role engaging with the first line, Regulatory Compliance assist the business in maintaining a positive and transparent relationship with the Regulators in respect of regulatory compliance and conduct matters.

Group Risk Assurance ("GRA") provides independent review and objective assurance on the quality and effectiveness of the Group's internal control system, including the Risk Governance Policies and Frameworks in accordance with a Board approved risk-based assurance plan.

2.8 People and culture risk

People and culture risk is the risk to achieving the Group's strategic objectives as a result of an inability to recruit, retain or develop resources, or the inability to evolve the culture aligned to the Group's values and behaviours.

Identification and assessment

The material risk assessment identifies the Group's key material risks including people and culture risk and its sub-risks including resource capacity, wellbeing and engagement risk, retention risk, talent sourcing and culture risk and the emerging risk drivers including changing workforce demographics, remote/hybrid working for longer term, changing market perceptions as employer of choice, changing business model, ineffective leadership and negative media coverage through the completion of a top-down review.

Bottom-up risk assessments are then captured through the risk and control assessment process in each business area across the Group. The risk and control assessment in 2022 has identified the key people and culture risks to be capacity, resourcing, recruitment and retention.

The risk and control assessment is the Group's core bottom-up process which serves to ensure that key risks are proactively identified, evaluated, monitored and reported, and that appropriate action is taken. The risk and control assessment includes a requirement to perform a self-assessment of the risks at each business unit level. The potential impact of these risks are then assessed through the ICAAP and stress testing processes where scenarios relating to this risk such as employment practices and workplace safety are developed and incorporated into the overall outcomes.

Management and measurement

The People and Culture Framework sets out the principles, supporting policies, roles and responsibilities, governance arrangements and processes for people risk management across the Group. The Framework is supported by various HR policies to drive the consistent management of this risk. Key management actions include:

- Significant enhancement of the Group's wellbeing, engagement, inclusion and diversity strategies;
- 2022 has seen an acceleration in the competition for talent in a buoyant labour market. The Group has responded with a very strong focus on senior talent identification and has in particular generated increased internal talent mobility. There has also been significant investment in terms of developing staff capabilities across the Group through learning and development plans;
- Continuing the Group's Culture development journey with progress being made throughout the year. The Group continues to be an active member of the Irish Banking Culture Board;
- The introduction of several progressive family leave policies in 2022 such as surrogacy, fertility treatment and pregnancy loss.
- Continued embedding of the Group's code of conduct; incorporating the risk culture principles, places great emphasis on the integrity of employees and accountability for both actions taken and inaction. The code sets out how employees are expected to behave in terms of the business, customer and employee. The code is supported by a range of employee policies, including 'Conflicts of Interest' and 'Speak up'. The Group has a disciplinary policy which clearly lays out the consequences of inappropriate behaviours;

2.8 People and culture risk *continued*

- Further re-iteration of the Group's 'Speak up' policy through the "Speak Your Mind" week held in 2022 that encouraged employees to speak their mind, and in particular the importance of reporting wrongdoing. This process also provides those working for the Group with a protected channel for raising concerns, which is at the heart of fostering an open and transparent working culture;
- A number of positive ExCo initiatives are underway to address the ongoing quantum and pace of the transformation and change agenda across the Group, impacting on resource retention and capacity, together with the accelerated pace of recruitment across the external market in certain highly skilled and specialised areas;
- Ongoing use of the Aspire Performance Management Programme ("Aspire"), which facilitates quality performance discussions with staff that contributes to delivering the Group's strategic ambitions. Aspire is designed to allow employees identify "What" personal and business objectives are to be achieved and "How" they will behave in the delivery of those objectives. The Board assesses the Aspire outputs on completion. Aspire allows the Group embrace the right behaviours and outcomes with equal weighting, to achieve the Group's strategic ambition;
- There has been significant investment in terms of developing capabilities across the bank including running a number of Leadership Development and Talent Management programs during the year; and
- People and culture risk is measured through a series of RAS metrics such as taking accountability using the 'How' performance management metric, top performers attrition rates, senior attrition rates and mandatory training completion rates.

Monitoring, escalating and reporting

In addition to risk appetite measures and limits, people and culture risks are monitored on a monthly basis via the Group's risk governance committees. This provides senior management, through the Operational Risk Committee, Group Risk Committee and the Board with timely updates on the Group's operational risk profile. The profile update details the current status of the Group's key people and culture risks. It also includes an overview of current trends, an update on recent significant events and any remediation actions or lessons identified following events. This allows the Group Risk Committee and Board Risk Committee to understand and discuss key people and culture risk metrics, with escalation to the Board where appropriate.

The Group, through the Board Audit Committee, reports and monitors issues raised through a number of channels including conflicts of interest, disciplinary policy and speak up policy. The Board monitors, reviews progress and oversight of senior management in relation to the Group's people and culture ambitions through a number of datasets including iConnect, the balanced scorecard and culture dashboard.

2.9 Capital adequacy risk*

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

Identification and assessment

Capital adequacy risk is primarily evaluated through the annual financial planning and the Group's ICAAP processes where the level of capital required to support growth plans and meet regulatory requirements is assessed over the three year planning horizon. Plans are assessed across a range of scenarios ranging from base case and moderate downside scenarios to a severe but plausible stress using the Group's stress testing methodologies. An annual material risk assessment is conducted to identify all relevant (current and anticipated) material risks which are then assessed from a capital perspective.

Management and measurement

The ICAAP is fully integrated and embedded in the strategic, financial and risk management processes of the Group. The Business Model and Capital Adequacy Framework sets out the key processes, governance arrangements and roles and responsibilities which support the ICAAP. Embedding of the ICAAP is facilitated through capital planning, the setting of risk appetite and risk adjusted performance monitoring. In addition to the capital plan, a capital contingency plan is in place which identifies and quantifies actions which are available to the Group in order to mitigate against the impact of a stress event. Trigger points at which these actions will be considered are also identified. The impact of changing regulatory requirements, changes in the risk profile of the Group's balance sheet and other internal factors, and changing external risks are regularly assessed by first line of defence and second line of defence teams via regular monitoring of performance against the agreed financial plan, monthly capital updates to ALCo and Group Risk Committees and are also assessed via quarterly internal stress testing. A further set of triggers and capital options are set out in the Group's recovery plan, which presents the actions available to the Group to restore viability in the event of extreme stress.

The Group uses risk adjusted return on capital for capital allocation purposes and as a behavioural driver of sound risk management. The use of risk adjusted return on capital for portfolio management and in new lending decisions continues to be an area of focus and a key consideration for pricing of lending products, both at portfolio level and individually for large transactions.

The Board reviews and approves the ICAAP on an annual basis and is also responsible for approving a capital adequacy statement attesting that the Board has reviewed and is satisfied with the capital adequacy of the Group.

Monitoring, escalating and reporting

The Group monitors its capital adequacy on a monthly basis when a capital reporting pack is presented to senior executives and Board setting out the evolution of the Group's capital position. The risk profile including performance against risk appetite is presented to the Board Risk Committee via the CRO report produced independently by the second line of defence. The escalation process as stipulated under the RAS policy is commenced in the event of a breach of either the RAS watch trigger or limit for any of the metrics. This ensures Board and Regulator notification, where appropriate, within approved timeframes. The output of quarterly stress tests is reviewed by ALCo and on an annual basis an ICAAP report is produced which is a comprehensive analysis of the Group's capital position in base and stress scenarios over a three year horizon. The ICAAP document is reviewed and approved by the Board and is submitted to the Joint Supervisory Team, where it forms the basis of their supervisory review and evaluation process.

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*Forms an integral part of the audited financial statements

2.10 Model risk

Model risk is the potential loss an institution may incur, as a consequence of decisions that could be principally based on the output of models, due to errors in the development, implementation or use of such models.

Identification and assessment

The Group's material risk assessment and the risk and control assessment forms the basis for identifying the key elements of the risk. The material risk assessment identifies the key sub-risks including oversight, data, development, implementation and use and the emerging risk drivers such as climate risk through a top-down review. The risk and control assessment is the Group's core bottom-up process in the identification and assessment of model risk across the Group.

The RCA includes a requirement to perform a self-assessment of the risks at each business unit level. The potential impact of model risk is assessed through the ICAAP. Model risk is generally mitigated through specific model adjustments. There is no explicit capital requirement generated from this risk, it is indirectly assessed through the other risks.

Management and measurement

There is a Model Risk Framework and supporting policies in place to drive the consistent management of this risk. This sets out the key controls required to mitigate model risk across the model lifecycle, from initiation of a model build through to implementation, use and ongoing monitoring. The key controls include:

- A complete inventory of all models in the Group, with a clear tiering of models to ensure key controls such as model validation and monitoring are being applied on a risk-based approach;
- Requirement for clear hand-offs between each stage in the lifecycle to mitigate the risk of issues propagating through the lifecycle of the model;
- Models are built, validated and monitored by suitably qualified analytical personnel, supported by relevant business, risk and finance functions;
- The best available data, both internal and external, must be used, and any data weaknesses are appropriately mitigated through the model build;
- The use of industry standard techniques are applied for stages in the model lifecycle where appropriate; and
- All material models are validated by an appropriately qualified team which is independent of the model build process. Where issues are identified, appropriate mitigants are applied. This can include temporary post model adjustments which are put in place until a model is re-developed.

Model risk is measured using a composite assessment of model outcomes across the lifecycle for all models in the inventory.

Monitoring, escalating and reporting

The Risk Measurement Committee and its sub-committee, the Model Risk Committee, are the primary committees for overseeing model risk in the Group. Model materiality is defined in the Group Model Risk Management Policy. The outcomes of validation and other reviews are brought to the appropriate committee(s) for oversight to ensure all models remain fit for their intended use and that any issues are appropriately escalated.

Model monitoring on material models is reported to committee(s) quarterly to ensure the models are performing as expected, with appropriate actions raised when models fall below the required performance levels.

An overall assessment of model risk is performed on a quarterly basis and is reported to the Group Risk Committee and Board Risk Committee. The status of model risk is reported on a monthly basis in the CRO report, which includes an update on recent significant events and any remediation actions that are underway.

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FINANCIAL STATEMENTS

		Page
1.	Statement of Directors' Responsibilities	210
2.	Independent Auditor's Report	211
3.	Consolidated financial statements	223
4.	Notes to the consolidated financial statements	229
5.	AIB Group plc company financial statements	344
6.	Notes to AIB Group plc company financial statements	347

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for preparing the Annual Financial Report and the Group and Company financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU and Article 4 of the IAS Regulation and have elected to prepare the Company financial statements in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2014.

In preparing both the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2014. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and Company and to prevent and detect fraud and other irregularities. Under applicable law and corporate governance requirements, the Directors are also responsible for preparing the Directors' Report and the reports relating to the Directors' remuneration and corporate governance that comply with that law and the relevant listing rules of Euronext Dublin (the Irish Stock Exchange) and the UK Listing Authority.

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

Each of the Directors whose names and functions are listed on pages 78 to 81 confirm, to the best of their knowledge and belief, that:

- they have complied with the above requirements in preparing the financial statements;
- the Group financial statements, prepared in accordance with IFRSs as adopted by the EU and Article 4 of the IAS Regulation, give a true and fair view of the state of the Group's affairs as at 31 December 2022 and of its profit for the year then ended;
- the Company financial statements prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the state of the Company's affairs as at 31 December 2022;
- the Directors' report, Business review and Risk management sections, contained in the Annual Financial Report provide a fair review of the development and performance of the business and the financial position of the Group, together with a description of the principal risks and uncertainties faced by the Group; and
- the Annual Financial Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's and the Company's position and performance, business model and strategy.

For and on behalf of the Board

Jim Pettigrew Chair	Colin Hunt Chief Executive Officer	Donal Galvin Chief Financial Officer

7 March 2023

INDEPENDENT AUDITOR’S REPORT

Independent auditor’s report to the members of AIB Group plc

Report on the audit of the European Single Electronic Format financial statements (the “financial statements”)

Opinion on the financial statements of AIB Group plc (the ‘Company’)

In our opinion the Group and Company financial statements:
- give a true and fair view of the assets, liabilities and financial position of the Group and Company as at 31 December 2022 and of the profit of the Group for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements we have audited comprise:

The Group financial statements:
- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated Statement of Financial Position;
- the Consolidated Statement of Changes in Equity;
- the Consolidated Statement of Cash Flows; and
- the related notes 1 to 53, including a summary of significant accounting policies as set out in note 1.

The Company financial statements:
- the Statement of Financial Position;
- the Statement of Changes in Equity;
- the Statement of Cash Flows; and
- the related notes a to m, including a summary of significant accounting policies as set out in note a.

The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2014 and International Financial Reporting Standards (IFRS) as adopted by the European Union (“the relevant financial reporting framework”).

Basis for opinion

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

We are independent of the Group and Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Expected credit losses on loans and advances to customers; • Recognition of deferred tax assets; • Defined benefit obligations; • Provisions for liabilities and commitments; • IT systems and controls; and • Recoverability of investment in subsidiary (Company only key audit matter). Within this report, any new key audit matters are identified with ⏫ and any key audit matters which are the same as the prior year identified with ⏩.
Materiality	We determined materiality for: – the Group to be € 55 million which is 0.4% of Total Equity of the Group; and – the Company to be € 55 million which is 0.5% of Total Equity of the Company.
Scoping	We focused the scope of our Group audit primarily on the audit work in AIB Group plc and four legal entities, all of which were subject to individual statutory audit work, whilst the other legal entities were subject to specified audit procedures, where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group’s operations in those entities. These audits and specified audit procedures covered over 94% of the Group’s total assets and 91% of the Group’s total operating income.
Significant changes in our approach	There were no significant changes in our approach which we feel require disclosure.

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 and Company’s ability to continue to adopt the going concern basis of accounting included consideration of the inherent risks to the Group’s and Company’s business models. We analysed how those risks might affect the Group’s and Company’s financial resources or ability to continue operations twelve months from the date of approval of these annual financial statements. The risks that we considered most likely to adversely affect the Group’s and Company’s available financial resources over this period were:

- availability of funding and liquidity in the event of a market wide stress scenario, including the potential prolonged impacts of inflationary pressures and geopolitical uncertainty on the economy; and
- impact on regulatory capital requirements in the event of an economic slowdown or recession.

As these were risks that could potentially cast significant doubt on the Group’s and the Company’s ability to continue as a going concern, our evaluation of the directors’ assessment included:

- understanding the Group and Company’s Capital and Liquidity process, including under stressed scenarios;
- evaluating the design and determining the implementation of key controls over the preparation of financial plans and budgets;
- obtaining the updated financial planning exercise covering the period 2023 to 2025 undertaken by the Group in the second half of 2022;
- assessing whether the level of forecasted profits in the updated financial plan were appropriate by challenging the growth, profitability and economic assumptions within;
- evaluating the accuracy of Management’s forecasting process by reviewing previous forecasts and comparing to actual results;
- challenging the key assumptions used in the directors’ assessment of the Group and the Company’s ability to continue as a going concern; and
- evaluating the adequacy of the relevant 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 and Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code and the Irish Corporate Governance Annex, we have nothing material to add or draw attention to in relation to the directors’ statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current financial year and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected credit losses on loans and advances to customers

Key audit matter description

In line with IFRS 9, losses on financial assets which are classified at amortised cost, are recognised on an Expected Credit Loss ("ECL") basis. ECLs are required to incorporate forward looking information, reflecting Management's view of potential future economic environments. The complexity involved in the calculations require Management to develop methodologies involving the use of significant judgements.

Expected credit loss allowances on loans and advances to customers was € 1,618 million at 31 December 2022 (2021: € 1,885 million).

Measurement of the ECL allowance on loans and advances to customers is a key audit matter as the determination of assumptions for ECLs is highly subjective due to the level of judgement applied by Management. The most significant judgements include:

- Determining the criteria for a significant increase in credit risk ("SICR"), and for being classified as credit impaired;
- The definition of default;
- Accounting interpretations and assumptions used to build the models that calculate the ECL;
- The determination of key assumptions, including collateral valuation and cashflow timings, used in discounted cash flows ("DCFs") of individually assessed loans;
- The completeness and accuracy of data used to calculate the ECL;
- The completeness and valuation of post-model adjustments determined by Management for certain higher risk portfolios and to address known model limitations; and
- Establishing the number and relative weightings for forward looking macroeconomic scenarios applied in measuring the ECL. This is highly subjective given that such assumptions are subject to significant uncertainty related to future economic outcomes, including the potential prolonged impacts of inflationary pressures and geopolitical uncertainty. This results in a wide range of possible outcomes.

Please also refer to page 97 (Report of the Board Audit Committee), page 248 (Accounting Policy (s) – Impairment of financial assets), Note 2 – Critical accounting judgements and estimates, Note 12 – Net credit impairment (charge)/writeback and Note 21 – ECL allowance on financial assets.

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

We tested the operating effectiveness of key controls supporting the calculation of ECLs on loan and advances to customers focusing on:

- model development, validation and approval to ensure compliance with IFRS 9 requirements;
- review and approval of key assumptions, judgements and macroeconomic forward looking information used in the models;
- the integrity of data used as input to the models including the transfer of data between source systems and the ECL models;
- the application of SICR criteria and the definition of default used to determine stage outcomes;
- governance and approval of post-model adjustments recorded by Management;
- governance and approval of the output of IFRS 9 models; and
- front line credit monitoring and assessment controls including annual case file reviews.

Our testing included an evaluation of the design and implementation of these key controls. Where control deficiencies were identified, we tested compensating controls implemented to produce the ECLs and financial statement disclosures. We also assessed Management review controls and governance controls including attendance at, and observation of, Board Risk Committee and Group Credit Committee meetings.

We evaluated IT system controls including assessing data inputs and general IT controls. We tested the completeness and accuracy of key data inputs and reconciled to source systems, where appropriate.

We critically assessed the ECL models developed by the Group. In conjunction with Deloitte credit modelling specialists, we challenged judgements and assumptions supporting the ECL requirements of IFRS 9. These included assumptions used in the ECL models applied in stage allocation, calculation of lifetime probability of default and methods applied to derive loss given default rates. We evaluated the methodology and performed code reviews for a sample of models.

We assessed the reasonableness of forward looking information incorporated into the impairment calculations. We challenged the macroeconomic scenarios chosen and changes to the weightings applied. This included benchmarking the economic data used to recognised external data sources. We also considered the impact of key uncertainties, including the potential prolonged impacts of inflationary pressures and geopolitical uncertainty on the economy.

We considered material post-model adjustments applied by Management to address model and data limitations. We challenged the rationale for these adjustments and performed testing on their calculation and application.

Expected credit losses on loans and advances to customers continued

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

In examining a risk based sample of DCF individually assessed loan cases, we challenged Management on the judgements made regarding the application of the default policy, status of loan restructures, collateral valuation and realisation time frames and examined the credit risk functions analysis of data at a portfolio level. Where appropriate, this work involved assessing third party valuations of collateral, internal valuation guidelines derived from benchmark data, external expert reports on borrowers' business plans and enterprise valuations. This allowed us to determine whether appropriate valuation methodologies were used and to assess the objectivity of the external experts used.

We considered significant items impacting the ECL allowance balance. This included portfolio sales and non-contracted write-offs, as well as recoveries on amounts previously written-off.

We evaluated the adequacy of disclosures made in the financial statements. In particular, we focused on challenging Management that the disclosures were sufficiently clear in highlighting the significant uncertainties that exist in respect of the ECL allowance and the sensitivity of the allowance to changes in the underlying assumptions.

Based on the evidence obtained, we found that the ECLs on loans and advances to customers are within a range we consider to be reasonable.

Recognition of deferred tax assets

Key audit matter description

Deferred tax assets of € 2,742 million (2021: € 2,840 million) are recognised for unutilised tax losses to the extent that it is probable that there will be sufficient future taxable profits against which the losses can be used.

The assessment of the conditions for the recognition of a deferred tax asset is a critical Management judgement, given the inherent uncertainties associated with projecting profitability over a long time period. This is highly subjective given the significant uncertainty related to future economic outcomes, including the potential longer term impacts of inflationary pressures and geopolitical uncertainty on the economy. The Group has reassessed profitability and growth forecasts for the period 2023 to 2025. Growth assumptions and profitability levels underpinning the plan have been revised upwards compared to previous years and results in a decrease in the expected deferred tax utilisation period.

The key audit matter relates to the Management judgement and potential bias involved in recognition and measurement of the deferred tax asset.

Please refer to page 97 (Report of the Board Audit Committee), page 238 (Accounting Policy (k) – Income tax, including deferred income tax), Note 2 – Critical accounting judgements and estimates and Note 27 – Deferred taxation.

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

We have evaluated the design and determined the implementation of key controls over the preparation of financial plans and budgets.

We assessed whether the level of forecasted profits were appropriate by challenging the growth, profitability and economic assumptions. We evaluated the accuracy of Management's forecasting process by reviewing previous forecasts and comparing to actual results.

We reviewed the model used by Management to assess the likelihood of future profitability and challenged Management's assessment of a range of positive and negative evidence for the projection of long-term future profitability.

We compared Management's assumptions to industry norms and other economic metrics where possible. We reviewed Management's analysis of the "more likely than not" test and assessed the adequacy of the financial statement disclosures.

Based on the evidence obtained, we found that the assumptions used by Management in the recognition of the deferred tax asset are within a range we consider to be reasonable.

Defined benefit obligations

Key audit matter description

The key audit matter is that the recognition and measurement of defined benefit obligations of € 4,850 million (2021: € 6,241 million) is inappropriate.

There is a high degree of estimation and judgement in the calculation of defined benefit obligations. A material change in the liability can result from small movements in the underlying actuarial assumptions, specifically the discount rates, pension in payment increases and inflation rates.

Please refer to page 98 (Report of the Board Audit Committee), page 237 (Accounting Policy (j) – Employee benefits), and Note 2 – Critical accounting judgements and estimates and Note 28 – Retirement benefits.

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

We have evaluated the design and determined the implementation of key controls over the completeness and accuracy of data extracted and supplied to the Group's actuary, which is used in the valuation of the Group's defined benefit obligations. We also evaluated the design and determined the implementation of the relevant controls for determining the actuarial assumptions and the approval of those assumptions by Management.

We utilised Deloitte actuarial specialists as part of our team to assist us in challenging the appropriateness of actuarial assumptions with particular focus on discount rates, pension in payment increases and inflation rates.

Our work included inquiries with Management and their actuaries to understand the processes and assumptions used in calculating the defined benefit obligations. We benchmarked economic and demographic assumptions against market data and assessed Management adjustments to market rates for Company and scheme specific information. For scheme specific assumptions, we considered the scheme rules, historic practice and other information relevant to the selection of the assumption.

We evaluated and assessed the adequacy of disclosures made in the financial statements, including disclosures of the assumptions and sensitivity of the defined benefit obligation to changes in the underlying assumptions.

Based on the evidence obtained, we concluded that assumptions used by Management in the actuarial valuations for defined benefit obligations are within a range we consider to be reasonable.

Provisions for liabilities and commitments

Key audit matter description

The calculation of provisions for liabilities and commitments, including the Financial Services and Pensions Ombudsman ("FSPO") decision and the sale of a series of property investment funds, known as Belfry, is highly judgemental and involves the use of several Management assumptions including the identification of relevant impacted customers and related redress costs. There is also a risk that known and emerging issues may not be appropriately disclosed in the financial statements. As a result, we consider this a key audit matter.

Included in Note 34 - Provisions for liabilities and commitments, the Group has recorded a provision of € 60 million (2021: € 79 million) in regard to the FSPO Decision. The Group has recorded a provision of € 79 million (2021: € 75 million) for the anticipated cost of redress and other related costs that may be payable under the Belfry programme.

Please refer to page 98 (Report of the Board Audit Committee), page 252 (Accounting Policy (z) – Non-credit risk provisions), Note 2 – Critical accounting judgements and estimates, Note 34 - Provisions for liabilities and commitments, and Note 40 – Contingent liabilities and commitments.

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

We have evaluated the design and determined the implementation of the Group's relevant controls over the identification, measurement and the disclosure of provisions for customer redress and related matters. We also assessed Management review and governance controls.

We reviewed the relevant regulatory and legal correspondence. We challenged the reasonableness of assumptions used by Management and tested the underlying data and assumptions used in the determination of the provisions recorded. We reviewed the basis for recording and retaining a provision taking into consideration the information available and the requirements of IAS 37.

Given the inherent uncertainty in the calculation of the provisions and their judgemental nature, we evaluated the adequacy of disclosures made in the financial statements. We challenged Management on the disclosures, in particular whether they are sufficiently clear in highlighting the exposures that remain and the significant uncertainties that exist in respect of the provisions.

Based on the evidence obtained, we found that the assumptions used by Management in measurement of the provisions for customer redress and related matters are within a range we consider to be reasonable.

IT systems and controls

Key audit matter description

The Group's financial reporting processes are reliant on processes, controls and data managed by IT systems. The IT environment is complex and pervasive to the operations of the Group due to the large volume of transactions processed daily and the reliance on automated and IT dependent manual controls. This risk is also impacted by dependency on third parties and outsourced arrangements.

Our planned audit approach relies extensively on IT applications and the operating effectiveness of the control environment. As part of our assessment of the IT environment, we considered privileged user access management controls to be critical in ensuring that only appropriately authorised changes are made to relevant IT systems. Moreover, appropriate access controls contribute to mitigating the risk of potential fraud or error as a result of changes to applications or processing unauthorised transactions.

We regard this area as a key audit matter owing to the high level of IT dependency within the Group, as well as the associated complexity and the risk that automated controls are not designed and operating effectively.

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

We examined the design of the governance framework associated with the Group's IT architecture. We gained an understanding of and tested relevant General IT Controls for systems we considered relevant to the financial reporting process, including access management, programme development and change management.

We gained an understanding of relevant IT controls over applications, operating systems and databases that are relevant for the financial reporting process and tested their operating effectiveness.

We assessed the relevant automated controls within business processes and the reliability of relevant reports used as part of manual controls. This included assessing the integrity of system interfaces, the completeness and accuracy of data feeds and automated calculations.

We tested user access by assessing the controls in place for in-scope applications and verifying the addition and removal of users.

While we identified certain design and operating effectiveness deficiencies in relation to user access controls, we tested validation activities performed by Management and compensating controls to mitigate the risk of fraud or error as a result of unauthorised transactions. Based on this testing we were able to place reliance on IT controls for the purpose of our audit.

Recoverability of investment in subsidiary (Company only key audit matter)

Key audit matter description

The key audit matter relates to the recoverability of the Company's investment in its subsidiary undertaking and the significant judgements and estimates required to determine its recoverable amount.

Following a corporate reorganisation during 2017, the Group implemented a new holding Company, AIB Group plc, which holds the Group's investment in Allied Irish Banks, p.l.c. The Company accounts for its investment in subsidiary at cost less provisions for impairment. At the end of each reporting period, the Company reviews its investment for impairment if there are indications that impairment may have occurred.

As at 31 December 2022, the Company tested its investment in Allied Irish Banks, p.l.c. for impairment. An impairment test was performed by the Company using a value-in-use ("VIU") model to calculate an estimated recoverable amount.

The assumptions used in the VIU model involved significant Management judgement and estimation. This includes determining future cash flow projections during the period of the financial plan and the selection of growth and discount rates.

The carrying amount of the Company's investment in subsidiary at 31 December 2022 was € 8,978 million. As a result of the impairment test, the recoverable amount at 31 December 2022 was calculated at € 12,260 million and this resulted in an impairment reversal of € 3,282 million.

Please refer to page 98 (Report of the Board Audit Committee), page 232 (Accounting Policy (d) – Basis of consolidation), Note 2 – Critical accounting judgements and estimates and Note e – Investment in subsidiary undertaking (AIB Group Company financial statements).

Recoverability of investment in subsidiary (Company only key audit matter) continued

How the scope of our audit responded to the key audit matter	We evaluated the design and determined the implementation of key controls over the preparation of financial plans and budgets. We assessed whether the level of forecasted profits was appropriate by challenging the growth, profitability and economic assumptions. We tested the accuracy of Management's forecasting process by reviewing previous forecasts and comparing to actual results. In conjunction with our Deloitte valuation specialists, we evaluated the methodology utilised by the Company in preparing the VIU calculation. In particular, we challenged the assumptions used in assessing the recoverability of the investment. We independently sourced market information around discount rates and growth rates. We determined a range of estimates around these assumptions and the resulting impairment charge. Given the inherent uncertainty in the calculation of a recoverable amount for the investment, we evaluated the adequacy of the disclosures made in the financial statements. We challenged Management on the disclosures, in particular whether they are sufficiently clear in highlighting the key assumptions and the sensitivity of the investment to changes in the underlying assumptions. Based on the evidence obtained, we concluded that the assumptions used by Management in assessing the recoverability of the investment in Allied Irish Banks, p.l.c. are within a range we consider reasonable.

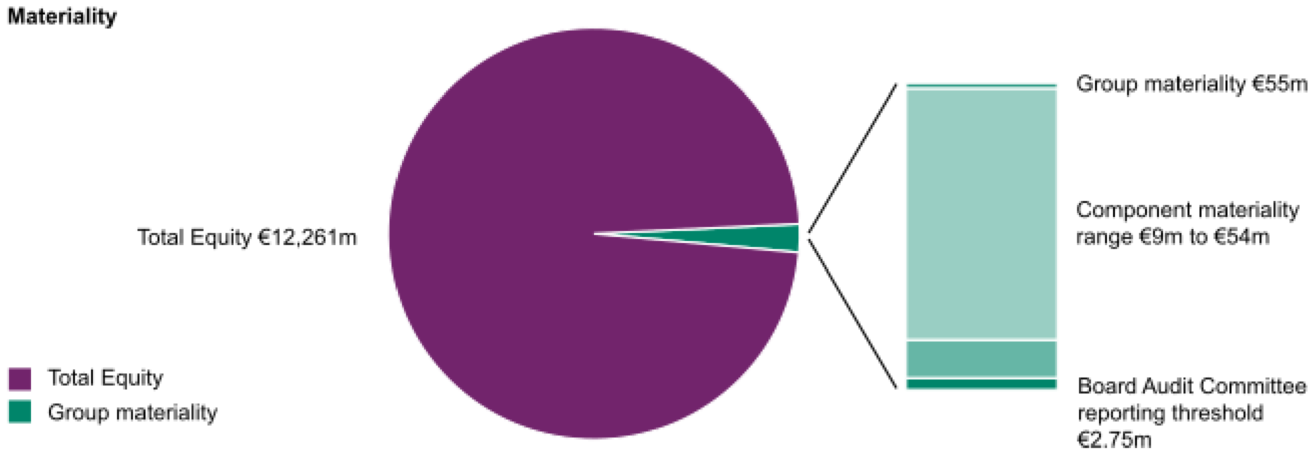
Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of 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	Company financial statements
Materiality	€55 million (2021: €55 million)	€55 million (2021: €55 million)
Basis for determining materiality	0.4% of Total Equity.	0.5% of Total Equity.
Rationale for the benchmark applied	We have considered Total Equity to be a critical component for determining materiality as it is one of the principal measures for users of the financial statements in assessing the Group's financial position. We have considered quantitative and qualitative factors such as understanding the entity and its environment, history of misstatements, complexity of the Group and the reliability of the control environment.	We have selected Total Equity as an appropriate benchmark for Company materiality as the Company's primary purpose is to act as a holding Company with investments in the Group's primary subsidiary and therefore a profit based measure is not relevant. However, given the size of the entity's statement of financial position, we have capped materiality at the Group's 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	Company financial statements
Performance materiality	70% of Group materiality	70% of Company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: a. The quality of the control environment and our ability to rely on controls; b. Degree of centralisation and commonality of controls and processes; c. The uncertain economic environment arising from inflationary pressures and geopolitical uncertainty; d. The nature, volume and size of uncorrected misstatements arising in the previous audit; and e. The nature, volume and size of uncorrected misstatements that remain uncorrected in the current year.	

We agreed with the Board Audit Committee that we would report to the Committee all audit differences in excess of €2.75 million (2021: €2.75 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Identification and scoping of components
We determined the scope of our Group audit by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group engagement team, and by auditors within Deloitte network firms operating under our instruction ("component auditors"). Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

Based on that assessment, we focused our Group audit work in AIB Group plc and the four legal entities as disclosed in Note 41 to the consolidated financial statements, all of which were subject to individual statutory audits, whilst the other legal entities were subject to specified audit procedures, where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations in those entities. These audits and specified audit procedures covered over 94% of the Group's total assets and 91% of the Group's total operating income. In addition, audits will be performed for statutory purposes for all legal entities.

We also tested the consolidation process and carried out analytical procedures to assess whether there were any additional significant risks of material misstatement arising from the aggregated financial information of the remaining entities not subject to audit or specified audit procedures.

Working with other auditors
The Group audit team sent component auditors detailed instructions on audit procedures to be undertaken and the information to be reported back to the Group audit team. Regular contact was maintained throughout the course of the audit with component auditors which included holding virtual Group planning meetings, maintaining communications on the status of the audits and continuing with a programme of virtual meetings and workshops designed so that the Group audit team engaged with each significant component audit team during the year. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

Our consideration of climate-related risks
In planning our audit, we have considered the potential impacts of the climate-related risks identified by Management on the Group's business and its financial statements.

The Group has set out its strategic ambition on climate and the related risks and governance processes on pages 22 - 54 of the annual financial report and in more detail throughout their sustainability report. Management have identified that climate-related risks could have a material impact on the strategy and operations of the Group, and the timing and ultimate impact of these risks contain an inherent level of uncertainty.

As part of our audit, we have made inquiries of management to understand their process for considering the impact of climate-related risks including their qualitative loan sector analysis. In addition, we are required to read the Group's disclosure of climate related information in the front half of the annual report, including the Task Force on Climate-related Financial Disclosures ("TCFD") disclosures listed on pages 30 – 41, to consider whether they are materially inconsistent with the financial statements or knowledge obtained in the audit. We did not identify any material inconsistencies as a result of these procedures.

Other information

The other information comprises the information included in the Annual Financial Report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the Annual Financial 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on IAASA's website at:https://iaasa.ie/publications/description-of-the-auditors-responsibilities-for-the-audit-of-the-financial-statements/ This description forms part of our auditor's report.

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.

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 impact of the Group's remuneration policies;
- results of our enquiries of management, in-house legal counsel, internal audit and the Board 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 including significant component audit teams and relevant internal specialists, including tax, valuations, pensions and IT 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 the following areas: 'Expected credit losses on loans and advances to customers', 'Recognition of deferred tax assets', 'Defined benefit obligations', 'Provisions for liabilities and commitments', 'Revenue recognition' and 'Recoverability of investment in subsidiary'. In common with all audits under ISAs (Ireland), 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 and Company operate 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 the Irish Companies Act, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the regulation and supervisory requirements of the European Central Bank and the Central Bank of Ireland.

Audit response to risks identified
As a result of performing the above, we identified 'Expected credit losses on loans and advances to customers', 'Recognition of deferred tax assets', 'Defined benefit obligations', 'Provisions for liabilities and commitments', and 'Recoverability of investment in subsidiary' as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

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 Board Audit Committee and in-house 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 regulators;
- 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; and
- In addressing the risk of fraud in revenue recognition, assessing the design and determined the implementation of the key controls over the recognition of non-standard revenue items and manual adjustments; and selected a sample of these items recorded within revenue during the year, for substantive procedures.

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

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, we report that:
- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited.
- The Company Statement of Financial Position is in agreement with the accounting records.
- In our opinion the information given in those parts of the directors' report as specified for our review is consistent with the financial statements and the directors' report has been prepared in accordance with the Companies Act 2014.

Corporate Governance Statement required by the Companies Act 2014
We report, in relation to information given in the Corporate Governance Statement on pages 75 to 128 that:
- In our opinion, based on the work undertaken during the course of the audit, the information given in the Corporate Governance Statement pursuant to subsections 2(c) and (d) of section 1373 of the Companies Act 2014 is consistent with the Company's statutory financial statements in respect of the financial year concerned and such information has been prepared in accordance with the Companies Act 2014.

  Based on our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in this information.

- In our opinion, based on the work undertaken during the course of the audit, the Corporate Governance Statement contains the information required by Regulation 6(2) of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 (as amended); and
- In our opinion, based on the work undertaken during the course of the audit, the information required pursuant to section 1373(2)(a), (b),(e) and (f) of the Companies Act 2014 is contained in the Corporate Governance Statement.

Corporate Governance Statement

The Listing Rules and ISAs (Ireland) require us to review the directors' statement in relation to going concern, longer-term viability and the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code and Irish Corporate Governance Annex specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:
- the directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 122;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 118;

Corporate Governance Statement *continued*

- the directors' statement on fair, balanced and understandable set out on page 210;
- the board’s confirmation that it has carried out a robust assessment of the emerging and principal risks and the disclosures in the annual report that describe the principal risks and the procedures in place to identify emerging risks and an explanation of how they are being managed or mitigated set out on page 26;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 116; and
- the section describing the work of the Board Audit Committee set out on pages 95 to 100.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in those parts of the directors’ report as specified for our review.

The Companies Act 2014 requires us to report to you if, in our opinion, the Company has not provided the information required by Regulation 5(2) to 5(7) of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 (as amended) for the financial year ended 31 December 2022. We have nothing to report in this regard.

The Companies Act 2014 also requires us to report to you if, in our opinion, the Company has not provided the information required by Section 1110N in relation to its remuneration report. We have nothing to report in this regard.

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of directors’ remuneration and transactions specified by law are not made.

The Listing Rules of the Euronext Dublin require us to review six specified elements of disclosures in the report to shareholders by the Board of Directors’ remuneration committee. We have nothing to report in this regard.

Other matters which we are required to address

Following the recommendation of the Board Audit Committee of Allied Irish Banks, p.l.c., we were appointed at the Annual General Meeting on 20 June 2013 to audit the financial statements for the financial year ended 31 December 2013. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 10 years, covering the years ending 2013 to 2022.

Following the corporate restructure of AIB Group plc in 2017 which led to the implementation of AIB Group plc, we were appointed on 21 September 2017 to audit the financial statements of AIB Group plc for the financial year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years, covering the years ending 2017 to 2022.

The non-audit services prohibited by IAASA’s Ethical Standard were not provided and we remained independent of the Company in conducting the audit.

Our audit opinion is consistent with the additional report to the Board Audit Committee we are required to provide in accordance with ISA (Ireland) 260.

Use of our report

This report is made solely to the Company’s members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

John McCarroll
For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House, Earlsfort Terrace, Dublin 2.
7 March 2023

Notes: An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in Ireland governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT

for the financial year ended 31 December 2022

	Notes	2022 € m	2021 € m
Interest income calculated using the effective interest rate method	4	**2,432**	2,003
Other interest income and similar income	4	**80**	81
Interest and similar income	4	**2,512**	2,084
Interest and similar expense	5	**(353)**	(290)
Net interest income		**2,159**	1,794
Dividend income		**2**	3
Fee and commission income	6	**765**	640
Fee and commission expense	6	**(177)**	(160)
Net trading income	7	**36**	15
Net gain on other financial assets measured at FVTPL	8	**102**	78
Net gain on derecognition of financial assets measured at amortised cost	9	**18**	1
Other operating income	10	**8**	5
Other income		**754**	582
Total operating income		**2,913**	2,376
Operating expenses	11	**(1,722)**	(1,679)
Impairment and amortisation of intangible assets	24	**(228)**	(198)
Impairment and depreciation of property, plant and equipment	25	**(113)**	(129)
Total operating expenses		**(2,063)**	(2,006)
Operating profit before impairment losses		**850**	370
Net credit impairment (charge)/writeback	12	**(7)**	238
Operating profit		**843**	608
Income from equity accounted investments	23	**37**	21
Profit before taxation		**880**	629
Income tax (charge)/credit	14	**(115)**	16
Profit for the year		**765**	645
Attributable to:			
– Equity holders of the parent		**767**	647
– Non-controlling interests		**(2)**	(2)
Profit for the year		**765**	645
Earnings per share			
Basic earnings per ordinary share	15(a)	**26.1 c**	21.4 c
Diluted earnings per ordinary share	15(b)	**26.1 c**	21.4 c

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the financial year ended 31 December 2022

	Notes	**2022** **€ m**	2021 € m
Profit for the year		**765**	645
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit (liability)/asset, net of tax	14	**(8)**	17
Total items that will not be reclassified subsequently to profit or loss		**(8)**	17
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
Net change in foreign currency translation reserves, net of tax	14	**(71)**	87
Net change in cash flow hedges, net of tax	14	**(1,619)**	(391)
Net change in fair value of investment debt securities at FVOCI, net of tax	14	**(188)**	(54)
Total items that will be reclassified subsequently to profit or loss when specific conditions are met		**(1,878)**	(358)
Other comprehensive income for the year, net of tax		**(1,886)**	(341)
Total comprehensive income for the year		**(1,121)**	304
Attributable to:			
– Equity holders of the parent		**(1,119)**	306
– Non-controlling interests		**(2)**	(2)
Total comprehensive income for the year		**(1,121)**	304

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2022

		2022	2021
	Notes	**€ m**	€ m
Assets			
Cash and balances at central banks	45	**38,138**	42,654
Trading portfolio financial assets	16	**8**	8
Derivative financial instruments	17	**2,511**	882
Loans and advances to banks	18	**1,502**	1,323
Loans and advances to customers	19	**59,613**	56,508
Securities financing	20	**6,282**	3,890
Investment securities	22	**16,270**	16,934
Investments accounted for using the equity method	23	**173**	127
Intangible assets and goodwill	24	**940**	996
Property, plant and equipment	25	**536**	631
Other assets	26	**296**	573
Current taxation		**15**	37
Deferred tax assets	27	**3,032**	2,834
Prepayments and accrued income		**423**	424
Retirement benefit assets	28	**13**	54
Total assets		**129,752**	127,875
Liabilities			
Deposits by central banks and banks	29	**514**	10,382
Customer accounts	30	**102,359**	92,866
Securities financing	20	**898**	45
Trading portfolio financial liabilities	16	**4**	2
Derivative financial instruments	17	**2,982**	1,062
Debt securities in issue	31	**7,203**	5,881
Lease liabilities	32	**257**	346
Current taxation		**1**	10
Deferred tax liabilities	27	**30**	53
Retirement benefit liabilities	28	**16**	54
Other liabilities	33	**1,106**	1,199
Accruals and deferred income		**377**	284
Provisions for liabilities and commitments	34	**340**	501
Subordinated liabilities and other capital instruments	35	**1,404**	1,530
Total liabilities		**117,491**	114,215
Equity			
Share capital	36	**1,671**	1,696
Reserves		**9,478**	10,850
Total shareholders' equity		**11,149**	12,546
Other equity interests	37	**1,115**	1,115
Non-controlling interests		**(3)**	(1)
Total equity		**12,261**	13,660
Total liabilities and equity		**129,752**	127,875

Jim Pettigrew	Colin Hunt	Donal Galvin	Conor Gouldson
Chair	Chief Executive Officer	Chief Financial Officer	Group Company Secretary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the financial year ended 31 December 2022

	Attributable to equity holders of parent												
	Share capital	Other equity interests	Capital reserves	Merger reserve	Capital redemption reserves	Revaluation reserves	Investment securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Total	Non-controlling interests	Total equity
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2022	**1,696**	**1,115**	**1,133**	**(3,622)**	**14**	**13**	**152**	**149**	**13,523**	**(512)**	**13,661**	**(1)**	**13,660**
Total comprehensive income for the year													
Profit for the year	—	—	—	—	—	—	—	—	767	—	767	(2)	765
Other comprehensive income *(note 14)*	—	—	—	—	—	—	(188)	(1,619)	(8)	(71)	(1,886)	—	(1,886)
Total comprehensive income for the year	—	—	—	—	—	—	(188)	(1,619)	759	(71)	(1,119)	(2)	(1,121)
Transactions with owners, recorded directly in equity													
Contributions by and distributions to owners of the Group													
Dividends paid on ordinary shares *(note 51)*	—	—	—	—	—	—	—	—	(122)	—	(122)	—	(122)
Distributions paid to other equity interests *(note 37)*	—	—	—	—	—	—	—	—	(65)	—	(65)	—	(65)
Buyback of ordinary shares *(note 36)*	(25)	—	—	—	25	—	—	—	(91)	—	(91)	—	(91)
Total contributions by and distributions to owners of the Group	(25)	—	—	—	25	—	—	—	(278)	—	(278)	—	(278)
At 31 December 2022	**1,671**	**1,115**	**1,133**	**(3,622)**	**39**	**13**	**(36)**	**(1,470)**	**14,004**	**(583)**	**12,264**	**(3)**	**12,261**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the financial year ended 31 December 2021

	Attributable to equity holders of parent												
	Share capital	Other equity interests	Capital reserves	Merger reserve	Capital redemption reserves	Revaluation reserves	Investment securities reserves	Cash flow hedging reserves	Revenue reserves	Foreign currency translation reserves	Total	Non-controlling interests	Total equity
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2021	1,696	1,115	1,133	(3,622)	14	14	206	540	12,923	(599)	13,420	1	13,421
Total comprehensive income for the year													
Profit for the year	—	—	—	—	—	—	—	—	647	—	647	(2)	645
Other comprehensive income *(note 14)*	—	—	—	—	—	—	(54)	(391)	17	87	(341)	—	(341)
Total comprehensive income for the year	—	—	—	—	—	—	(54)	(391)	664	87	306	(2)	304
in equity													
Contributions by and distributions to owners of the Group													
Distributions paid to other equity interests *(note 37)*	—	—	—	—	—	—	—	—	(65)	—	(65)	—	(65)
Other movements	—	—	—	—	—	(1)	—	—	1	—	—	—	—
Total contributions by and distributions to owners of the Group	—	—	—	—	—	(1)	—	—	(64)	—	(65)	—	(65)
At 31 December 2021	1,696	1,115	1,133	(3,622)	14	13	152	149	13,523	(512)	13,661	(1)	13,660

CONSOLIDATED STATEMENT OF CASH FLOWS

for the financial year ended 31 December 2022

	Notes	2022 € m	2021 € m
Cash flows from operating activities			
Profit before taxation for the year		**880**	629
Adjustments for:			
– Non-cash and other items	46	**312**	270
– Change in operating assets	46	**(5,623)**	(2,312)
– Change in operating liabilities	46	**3**	15,344
– Taxation (paid)/refund		**(19)**	13
Net cash (outflow)/inflow from operating activities		**(4,447)**	13,944
Cash flows from investing activities			
Purchase of investment securities	22	**(3,823)**	(2,517)
Proceeds from sales, redemptions and maturity of investment securities	22	**2,696**	4,928
Additions to property, plant and equipment	25	**(32)**	(31)
Disposal of property, plant and equipment		**10**	10
Additions to intangible assets	24	**(174)**	(204)
Acquisition cost of subsidiary		**—**	(60)
Proceeds of disposal of investment in associated undertaking		**36**	—
Investments accounted for using the equity method	23	**(45)**	(8)
Net cash (outflow)/inflow from investing activities		**(1,332)**	2,118
Cash flows from financing activities			
Proceeds on issue of debt securities – MREL	31	**3,231**	750
Repurchase of debt securities	31	**(844)**	—
Dividends paid on ordinary shares	51	**(122)**	—
Buyback of ordinary shares	36	**(91)**	—
Distributions paid to other equity interests	37	**(65)**	(65)
Repayment of lease liabilities	32	**(89)**	(43)
Interest paid on debt securities – MREL		**(108)**	(97)
Interest paid on subordinated liabilities and other capital instruments		**(38)**	(28)
Net cash inflow from financing activities		**1,874**	517
Change in cash and cash equivalents		**(3,905)**	16,579
Opening cash and cash equivalents		**43,557**	26,559
Effect of exchange translation adjustments		**(336)**	419
Closing cash and cash equivalents	45	**39,316**	43,557

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Note	Page
1	Accounting policies	230
2	Critical accounting judgements and estimates	257
3	Segmental information	262
4	Interest and similar income	266
5	Interest and similar expense	267
6	Net fee and commission income	267
7	Net trading income	268
8	Net gain on other financial assets measured at FVTPL	268
9	Net gain on derecognition of financial assets measured at amortised cost	268
10	Other operating income	268
11	Operating expenses	269
12	Net credit impairment (charge)/writeback	269
13	Auditor's remuneration	270
14	Taxation	271
15	Earnings per share	273
16	Trading portfolio	273
17	Derivative financial instruments	274
18	Loans and advances to banks	286
19	Loans and advances to customers	287
20	Securities financing	288
21	ECL allowance on financial assets	288
22	Investment securities	289
23	Investments accounted for using the equity method	290
24	Intangible assets and goodwill	291
25	Property, plant and equipment	292
26	Other assets	294
27	Deferred taxation	295
28	Retirement benefits	298

	Note	Page
29	Deposits by central banks and banks	304
30	Customer accounts	304
31	Debt securities in issue	305
32	Lease liabilities	306
33	Other liabilities	306
34	Provisions for liabilities and commitments	307
35	Subordinated liabilities and other capital instruments	309
36	Share capital	310
37	Other equity interests	311
38	Capital reserves, merger reserve and capital redemption reserves	312
39	Offsetting financial assets and financial liabilities	312
40	Contingent liabilities and commitments	316
41	Subsidiaries and consolidated structured entities	318
42	Off-balance sheet arrangements and transferred financial assets	319
43	Classification and measurement of financial assets and financial liabilities	322
44	Fair value of financial instruments	324
45	Cash and cash equivalents	333
46	Statement of cash flows	334
47	Related party transactions	335
48	Employees	342
49	Regulatory compliance	342
50	Financial and other information	342
51	Dividends	343
52	Non-adjusting events after the reporting period	343
53	Approval of financial Statements	343

1 Accounting policies

Index

(a) Reporting entity
(b) Statement of compliance
(c) Basis of preparation
(d) Basis of consolidation
(e) Foreign currency translation
(f) Interest income and expense recognition
(g) Dividend income
(h) Fee and commission income
(i) Net trading income
(j) Employee benefits
(k) Income tax, including deferred income tax
(l) Financial assets
(m) Financial liabilities and equity
(n) Leases
(o) Determination of fair value of financial instruments
(p) Sale and repurchase agreements (including securities borrowing and lending)
(q) Derivatives and hedge accounting
(r) Derecognition
(s) Impairment of financial assets
(t) Collateral and netting
(u) Financial guarantees and loan commitment contracts
(v) Property, plant and equipment
(w) Intangible assets
(x) Impairment of property, plant and equipment, goodwill and intangible assets
(y) Disposal groups and non-current assets held for sale
(z) Non-credit risk provisions
(aa) Equity
(ab) Cash and cash equivalents
(ac) Segment reporting
(ad) Prospective accounting changes

1 Accounting policies

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

(a) Reporting entity

AIB Group plc ('the parent company' or 'the Company') is a company domiciled in Ireland. The address of the Company's registered office is 10 Molesworth Street, Dublin 2, Ireland. AIB Group plc is registered under the Companies Act 2014 as a public limited company under the company number 594283 and is the holding company of the Group.

The consolidated financial statements for the year ended 31 December 2022 include the financial statements of AIB Group plc and its subsidiary undertakings, collectively referred to as 'AIB Group' or 'the Group', where appropriate, including certain special purpose entities and the Group's interest in associates/joint ventures using the equity method of accounting and are prepared to the end of the financial period. The Group is and has been primarily involved in retail and corporate banking.

(b) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Accounting Standards and International Financial Reporting Standards (collectively "IFRSs") as adopted by the European Union ("EU") and applicable for the financial year ended 31 December 2022. The consolidated financial statements also comply with those parts of the Companies Act 2014 and the European Union (Credit Institutions: Financial Statements) Regulations 2015 applicable to companies reporting under IFRS, and the Asset Covered Securities Acts 2001 and 2007 and Article 4 of the IAS Regulation. The accounting policies have been consistently applied by Group entities and are consistent with the previous year, unless otherwise described.

(c) Basis of preparation

Functional and presentation currency

The financial statements are presented in euro, which is the functional currency of the parent company and a significant number of its subsidiaries, rounded to the nearest million.

Basis of measurement and presentation

The financial statements have been prepared under the historical cost basis, with the exception of the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit or loss, certain hedged financial assets and financial liabilities and investment securities at fair value through other comprehensive income ("FVOCI"). The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and the holding company's separate statements of financial position, the consolidated and the holding company's separate statements of cash flows, and the consolidated and the holding company's separate statements of changes in equity together with the related notes. These notes also include financial instrument related disclosures which are required by IFRS 7, *Financial Instruments: Disclosures* and IAS 1, *Presentation of Financials Statements*, contained in the 'Business review' and the 'Risk management' sections of this Annual Financial Report. The relevant information on those pages is identified as forming an integral part of the audited financial statements.

Change in presentation of certain items in the primary statements

The Group has changed the presentation of certain line items in the consolidated statement of financial position and the consolidated income statement to a more appropriate presentation as those line items are no longer material. 'Items in course of collection' and 'disposal groups and non-current assets held for sale' are reported within 'other assets' in 2022. The comparatives for 2021 of € 44 million and € 8 million respectively have been restated accordingly. In the consolidated income statement 'loss on disposal of property', previously presented outside of operating profit, is now reported within 'other operating income' in 2022. The comparative for 2021 of a loss of € 3 million has been restated accordingly.

For fair value hedges where the hedged financial assets and liabilities are measured at amortised cost, the Group has changed the presentation of the fair value adjustments that is attributable to the hedged risk. The Group has adjusted the carrying amount of impacted financial assets and liabilities presented within 'investment securities', 'debt securities in issue' and 'subordinated liabilities and other capital instruments' for the gain or loss that is attributable to the hedged risk in 2022 and the related comparatives for 2021 have been restated by (€ 38 million), € 62 million and (€ 26 million) respectively. The Group historically presented those amounts in a single separate line item within other assets and other liabilities as those amounts were not material.

Use of judgements and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management's judgement may involve making estimates concerning the likelihood of future events, the actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. The judgements that have a significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are in the areas of expected credit losses on financial instruments; the recoverability of deferred tax; retirement benefit obligations; and provisions for liabilities and commitments. A description of these judgements and estimates is set out in note 2.

1 Accounting policies *continued*

(c) Basis of preparation continued

Consideration of climate change

In preparing the financial statements, the Directors have considered the impact of climate change, particularly in the context of the risks identified in the TCFD disclosure on pages 30 to 41 this year. There has been no material impact identified on the financial reporting judgements and estimates of the Group. In particular, the Directors considered the impact of climate change in respect of the following areas:

- **Credit risk:** The impact of climate risk on the management, escalating and reporting of credit risk was considered by the Group. It was deemed that insufficient evidence of the likely loss impacts from climate events is available to adjust expected credit losses ("ECL") materially but that the Group's approach to individual counterparty risk assessment adequately captures climate risk where appropriate. This is set out in further detail on page 151.
- **Going concern and viability:** The assessment of the group's going concern and viability over the next three years did not identify material climate-related risks, both in terms of commitment to being Net Zero on its own operations on Scope 1 and Scope 2 emissions by 2030 and the physical risks from climate change. This is set out in further detail on page 121.
- **Provisions and contingent liabilities:** The Group's publicly announced commitment to being Net Zero on its own operations on Scope 1 and Scope 2 emissions by 2030 is not considered a constructive obligation or a contingent liability. The timeframe to 2030 allows opportunities for the Group to evolve its plans for how the Net Zero commitment will be met and therefore it would not be appropriate for the Group to recognise a provision or a contingent liability in relation to its net zero commitment (i.e. as the Group does not have an obligation as a result of a past event). IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* sets out that it is only those obligations arising from past events existing independently of an entity's future actions that are recognised as provisions or disclosed as contingent liabilities.
- **Impairment of non-financial assets**: The Group applies the requirements of IAS 36 *Impairment of Assets* in assessing whether impacted assets are impaired at a reporting date. The Group has a robust process to identify assets which may be impaired which requires the identification of all material potential impairment triggers including identification of climate related impairment triggers. In addition, the Group's published commitment to be net zero in its own operations does not impact the useful lives of the Group's impacted assets as the Group proposes to replace impacted assets as their useful lives expire.

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

Going concern

The financial statements for the year ended 31 December 2022 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting the Group, that it has the ability to continue in business for the period of assessment. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions. This includes capital forecasts and internally generated stress scenarios with additional scenarios to take account of the inorganic initiatives that the Group has committed to. The scenarios include the impacts of persistent inflation, disruptions to energy supplies, increased interest rates and significant impacts on unemployment and property prices. The period of assessment used by the Directors is at least 12 months from the date of approval of these annual financial statements.

Adoption of new accounting standards/amendments to standards

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

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

(d) Basis of consolidation

Subsidiary undertakings

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

The Group reassesses whether it controls a subsidiary when facts and circumstances indicate that there are changes to one or more elements of control.

1 Accounting policies *continued*

(d) Basis of consolidation continued

Loss of control

If the Group loses control of a subsidiary, the Group:

(i) Derecognises the assets (including any goodwill) and liabilities of the former subsidiary at their carrying amounts at the date control is lost;
(ii) Derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date control is lost (including any attributable amounts in other comprehensive income);
(iii) Derecognises the fair value of any consideration received and any distribution of shares of the subsidiary;
(iv) Derecognises any investment retained in the former subsidiary at its fair value at the date when control is lost;
(v) Reclassifies to profit or loss, or transfers directly to retained earnings if required by IFRS, the amounts recognised in other comprehensive income in relation to the subsidiary; and
(vi) Recognises any resulting difference of the above items as a gain or loss in the income statement.

The Group subsequently accounts for any investment retained in the former subsidiary in accordance with IFRS 9 *Financial Instruments*, or when appropriate, IAS 28 *Investments in Associates and Joint Ventures*.

Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. The Group assesses whether it has control over such an entity by considering factors such as the purpose and design of the entity; the nature of its relationship with the entity; and the size of its exposure to the variability of returns of the entity.

Business combinations

The Group accounts for the acquisition of a business using the acquisition method except for a business under common control. Under the acquisition method, the consideration transferred in a business combination is measured at fair value, which is calculated as the sum of:

- The acquisition date fair value of assets transferred by the Group;
- Liabilities incurred by the Group to the former owners of the acquiree; and
- The equity interests issued by the Group in exchange for control of the acquiree.

Acquisition related costs are recognised in the income statement as incurred.

Goodwill is measured as the excess of the sum of:

- The fair value of the consideration transferred;
- The amount of any non-controlling interests in the acquiree; and
- The fair value of the acquirer’s previously held equity interest in the acquiree, if any; less
- The net of the acquisition date fair value of the identifiable assets acquired and liabilities assumed.

The Group in its capacity as a trustee

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets, and income arising thereon, are excluded from the financial statements, as they are not assets of the Group.

Non-controlling interests

For each business combination, the Group recognises any non-controlling interest in the acquiree either:

- At fair value; or
- At their proportionate share of the acquiree’s identifiable net assets.

For changes in the Group’s interest in a subsidiary that do not result in a loss of control, the Group adjusts the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The difference between the change in value of the non-controlling interest and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the parent.

Common control transactions

The Group accounts for the acquisition of businesses and investments in subsidiary undertakings between members of the Group at carrying value at the date of the transaction unless prohibited by company law or IFRS. This policy also applies to the acquisition of businesses by the Group of other entities under the common control of the Irish Government. Where the carrying value of the acquired net assets exceeds the fair value of the consideration paid, the excess is accounted for as a capital contribution (accounting policy (aa)). On impairment of the subsidiary, in the parent company’s separate financial statements, an amount equal to the impairment charge net of tax in the income statement is transferred from capital contribution reserves to revenue reserves.

The entire capital contribution is transferred to revenue reserves on final sale of the subsidiary.

For acquisitions under common control, comparative data is not restated. The consolidation of the acquired entity is effective from the acquisition date with intercompany balances eliminated at a Group level on this date.

1 Accounting policies *continued*

(d) Basis of consolidation continued

Investments accounted for using the equity method

The Group's investments accounted for using the equity method comprise its investments in associates and joint ventures.

An associated undertaking is an entity over which the Group has significant influence, but not control, over the entity's operating and financial policy decisions. If the Group holds 20% or more of the voting power of an entity, it is presumed that the Group has significant influence, unless it can be clearly demonstrated that this is not the case.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investments in associated undertakings and joint ventures are initially recorded at cost and increased (or decreased) each year by the Group's share of the post acquisition net income (or loss), and other movements reflected directly in other comprehensive income of the associated undertaking or joint venture.

Goodwill arising on the acquisition of an associated undertaking is included in the carrying amount of the investment. When the Group's share of losses in an associate has reduced the carrying amount to zero, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations to make payments on behalf of the associate.

Where the Group continues to hold more than 20% of the voting power in an investment but ceases to have significant influence, the investment is no longer accounted for as an associate. On the loss of significant influence, the Group measures the investment at fair value and recognises any difference between the carrying value and fair value in profit or loss and accounts for the investment in accordance with IFRS 9 *Financial Instruments*.

The Group's share of the results of associated undertakings or joint venture after tax reflects the Group's proportionate interest and is based on financial statements made up to a date not earlier than three months before the period end reporting date, adjusted to conform with the accounting policies of the Group.

Since goodwill that forms part of the carrying amount of the investment in an associate is not recognised separately, it is, therefore, not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

Transactions eliminated on consolidation

Intra-group balances and any unrealised income and expenses arising from intra-group transactions are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Unrealised gains and losses on transactions with associated undertakings are eliminated to the extent of the Group's interest in the investees.

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

Parent Company financial statements: Investment in subsidiary and associated undertakings

The Company accounts for investments in subsidiary and associated undertakings, that are not classified as held for sale at cost less provisions for impairment. If the investment is classified as held for sale, the Company accounts for it at the lower of its carrying value and fair value less costs to sell.

The Company reviews its equity investment for impairment at the end of each reporting period if there are indications that impairment may have occurred.

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 the Company's financial statements. The recoverable amount is the higher of fair value less costs to sell and value-in-use ("VIU").

Dividends from a subsidiary or an associated undertaking are recognised in the income statement when the Company's right to receive the dividend is established.

(e) Foreign currency translation

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

Transactions and balances

Foreign currency transactions are translated into the respective entity's functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-translation at period end exchange rates of the amortised cost of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

1 Accounting policies *continued*

(e) Foreign currency translation continued

Transactions and balances continued

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 instruments designated as a hedge of the net investment in a foreign operation are reported in other comprehensive income.

Foreign operations

The results and financial position of all Group entities that have a functional currency different from the euro are translated into euro as follows:

- Assets and liabilities including goodwill and fair value adjustments arising on consolidation of foreign operations are translated at the closing rate;
- Income and expenses are translated into euro at the average rates of exchange during the period where these rates approximate to the foreign exchange rates ruling at the dates of the transactions;
- Foreign currency translation differences are recognised in other comprehensive income; and
- Since 1 January 2004, the Group's date of transition to IFRS, all such exchange differences are included in the foreign currency cumulative translation reserve within shareholders' equity. When a foreign operation is disposed of in full, the relevant amount of this reserve is transferred to the income statement. When a subsidiary is partly disposed of, the relevant proportion of foreign currency translation reserve is re-attributed to the non-controlling interest. In the case of a partial disposal, a pro-rata amount of the foreign currency cumulative translation reserve is transferred to the income statement. This also applies in the case where there has not been a reduction in the overall percentage holding, i.e. repayment of capital.

(f) Interest income and expense recognition

Interest income and expense is recognised in the income statement using the effective interest rate method.

Effective interest rate

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortised cost of the financial liability.

The application of the method has the effect of recognising income receivable and expense payable on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating the effective interest rate for financial instruments, other than credit impaired assets, the Group estimates cash flows (using projections based on its experience of customers' behaviour) considering all contractual terms of the financial instrument but excluding expected credit losses. The calculation takes into account all fees, including those for any expected early redemption, and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

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

Amortised cost and gross carrying amount

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

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

Calculation of interest income and interest expense

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

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

However, for financial assets that were credit impaired on initial recognition, interest income is calculated by applying the credit adjusted effective interest rate to the amortised cost of the financial asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

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

Interest income and expense on financial assets and liabilities classified as held for trading or at FVTPL is recognised in 'other interest income and similar income' or 'interest expense' in the income statement, as applicable.

1 Accounting policies *continued*

(f) Interest income and expense recognition continued

Presentation

Interest income and expense presented in the consolidated income statement include:
- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest rate basis;
- Interest on investment debt securities measured at FVOCI calculated on an effective interest rate basis;
- Interest on financial assets measured at FVTPL;
- Net interest income and expense on qualifying hedge derivatives designated as cash flow hedges or fair value hedges which are recognised in interest income or interest expense; and
- Interest income and funding costs of trading portfolio financial assets.

The Group policy for the recognition of leasing income is set out in Accounting policy (n).

Targeted Long Term Refinancing Operation III ("TLTRO III")

Eurosystem refinancing operations are credit facilities from the Eurosystem secured by a fixed charge over securities and relates to Targeted Long Term Refinancing Operation III ("TLTRO III").

TLTRO III has specific terms attached to it which are different from other sources of funding available to banks including other sources of funds provided by the European Central Bank ("ECB"). The financial conditions incorporated into TLTRO III reflect ECB monetary policy initiatives to prospectively reduce the cost of funding for banking institutions. Accordingly, the Group has concluded that the ECB has established a separate market for TLTRO programmes and TLTRO III transactions are at market rates and the requirements of IAS 20 *Accounting for Government Grants* do not apply.

The borrowing rate applicable to the TLTRO III loans is linked to the lending patterns of the Group and are subject to the achievement of predefined lending performance thresholds based on the eligible net lending of the Group in certain specified periods.

The amount of interest income recognised during the period on TLTRO III depends on whether the Group had a reasonable expectation of meeting the relevant lending performance thresholds. The Group interprets reasonable expectations as highly probable (i.e. the probability of meeting the lending targets is substantially greater than the probability that it will not). As a result, if interest income is recognised during the period based on the expectation of meeting the targets, there should be only a limited possibility that the interest may need to be reversed in future periods.

If the Group does not have a reasonable expectation that the lending targets will be met but subsequently determines it will meet the relevant lending performance thresholds, it revises its estimates of receipts and recalculates the present value of the estimated future contractual cash flows that are discounted at the original effective interest rate and recognises the adjustment in the Group's consolidated income statement as negative interest on financial liabilities at amortised cost.

(g) Dividend income

Dividends on equity investments measured at FVTPL / FVOCI are recognised in the income statement when the entity's right to receive payment is established and provided that they represent a return on capital.

(h) Fee and commission income

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

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

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

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

1 Accounting policies *continued*

(h) Fee and commission income continued

The majority of the Group's fee and commission income arises from retail banking activities. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or retained a part at the same effective interest rate as applicable to the other participants.

Foreign exchange income is fee income that is derived from arranging foreign exchange transactions on behalf of customers. Such income is recognised when the individual performance obligation has been fulfilled.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees relating to investment funds are recognised over time in line with the performance obligation. The same principle is applied to the recognition of income from wealth management, financial planning and custody services that are continuously provided over an extended period of time.

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

Fee income and fee expenses in respect of services and prepaid credits for cellular phone and utilities sold to third parties are classified as specialised payment services and are recognised when the performance obligation is satisfied.

(i) Net trading income

Net trading income comprises gains less losses relating to trading assets and trading liabilities and includes all realised and unrealised fair value changes. Interest and dividend income on trading assets are shown in 'interest income' and 'dividend income' respectively.

(j) Employee benefits

Retirement benefit obligations

The Group provides employees with post-retirement benefits mainly in the form of pensions.

The Group provides a number of retirement benefit schemes including defined benefit and defined contribution as well as a hybrid scheme that has both defined benefit and defined contribution elements. In addition, the Group contributes, according to local law in the various countries in which it operates, to governmental and other schemes which have the characteristics of defined contribution schemes. The majority of the defined benefit schemes are funded.

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

Scheme assets are measured at fair value determined by using current bid prices, except for insurance policies acquired as part of a buy in. If the policies are qualifying policies under IAS 19 *Employee Benefits* and if the timing and amount of payments under the policies exactly match some or all of the benefits payable under the scheme, then the present value of the related obligation is determined and is deemed to be the fair value of the insurance policies to be included in plan assets.

Scheme liabilities are measured on an actuarial basis by estimating the amount of future benefit that employees have earned for their service in current and prior periods and discounting that benefit at the market yield on a high quality corporate bond of equivalent term and currency to the liability. The calculation is performed by a qualified actuary using the projected unit credit method. The difference between the fair value of the scheme assets and the present value of the defined benefit obligation at the year end reporting date is recognised in the statement of financial position. Schemes in surplus are shown as assets and schemes in deficit, together with unfunded schemes, are shown as liabilities. A surplus is only recognised as an asset to the extent that it is recoverable through a refund from the scheme or through reduced contributions in the future. Actuarial gains and losses are recognised immediately in other comprehensive income.

1 Accounting policies *continued*

(j) Employee benefits continued

Retirement benefit obligations continued

The cost of providing defined benefit pension schemes to employees, comprising the net interest on the net defined benefit liability/(asset), calculated by applying the discount rate to the net defined benefit liability/(asset) at the start of the annual reporting period, taking into account contributions and benefit payments during the period, is charged to the income statement within personnel expenses.

Remeasurements of the net defined benefit liability/(asset), comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability/(asset)) are recognised in other comprehensive income. Amounts recognised in other comprehensive income in relation to remeasurements of the net defined benefit liability/(asset) will not be reclassified to profit or loss in a subsequent period.

In early 2017, the Board reassessed its obligation to fund increases in pensions in payment. The Board confirmed that funding of increases in pensions in payment is a decision to be made by the Board each year where increases are discretionary. This was based on actuarial and external legal advice obtained. Accordingly, a decision by the Board to fund a pension increase does not constitute a constructive obligation to fund future pension in payment increases.

The Group recognises the effect of an amendment to a defined benefit scheme when the plan amendment occurs, which is when the Group introduces or withdraws a defined benefit scheme, or changes the benefits payable under existing defined benefit schemes. A curtailment is recognised when a significant reduction in the number of employees covered by a defined benefit scheme occurs. A settlement is a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit scheme. Gains or losses on plan amendments, curtailments and settlements are recognised in the income statement.

Changes with regard to benefits payable to retirees which represent a constructive obligation under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* are accounted for as a past service cost. These are recognised in the income statement.

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

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

Short term employee benefits

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

Termination benefits

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

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

(k) Income tax, including deferred income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income. Income tax relating to items in equity is recognised directly in equity. However, the income tax consequences of payments on financial instruments that are classified as equity but treated as liabilities for tax purposes are recognised in profit or loss if those payments are distributions of profits previously recognised in profit or loss.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

1 Accounting policies *continued*

(k) Income tax, including deferred income tax continued

Deferred income tax is provided, using the balance sheet liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the reporting date and expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred income tax assets are recognised when it is probable that future taxable profits will be available against which the temporary differences will be utilised. The deferred tax asset is reviewed at the end of each reporting period and the carrying amount will reflect the extent that it is probable that sufficient taxable profits will be available to allow all of the asset to be recovered.

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

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

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

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the 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 in each jurisdiction, is recognised as an expense in the period in which the profits arise.

(l) Financial assets

Recognition and initial measurement

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

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

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

Classification and subsequent measurement

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

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

1 Accounting policies *continued*

(l) Financial assets continued

– 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 rate method and is adjusted on each measurement date by the expected credit loss allowance for each asset, with movements recognised in profit or loss.

– Fair value through other comprehensive income ("FVOCI")

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

– Fair value through profit or loss ("FVTPL")

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. Gains or losses (excluding interest income or expense) on such assets are recognised in profit or loss on an ongoing basis.

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

– Embedded derivatives

Certain hybrid contracts may contain both a non-derivative host and an 'embedded derivative'. Under IFRS 9 Financial Instruments, there is no bifurcation of embedded derivatives from the host financial asset. As a result, such financial assets will generally fail the SPPI test unless the embedded derivative does not substantially modify the cash flows that would otherwise be required by the contract. Those failing the SPPI test will be classified and measured at FVTPL.

Business model assessment

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

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

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

Characteristics of the contractual cash flows

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

1 Accounting policies *continued*

(l) Financial Assets continued

The SPPI test requires an assessment of the contractual terms and conditions to determine whether a financial asset contains any terms that could modify the timing or amount of contractual cash flows of the asset, to the extent that they could not be described as solely payments of principal and interest. In making this assessment, the Group considers:

- Features that modify the time value of money element of interest (e.g. tenor of the interest rate does not correspond with the frequency within which it resets);
- Terms providing for prepayment and extension;
- Leverage features;
- Contingent events that could change the amount and timing of cash flows;
- Terms that limit the Group's claim to cash flows from specified assets; and
- Contractually linked instruments.

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

Reclassifications

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

Investments in equity instruments

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

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

(m) Financial liabilities and equity

The Group categorises financial liabilities as at amortised cost or as at fair value through profit or loss.

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

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

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

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

Preference shares which carry a mandatory coupon are classified as financial liabilities. The dividends on these preference shares are recognised in the income statement as interest expense using the effective interest rate method.

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

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

1 Accounting policies *continued*

(n) 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

Lease rentals payables are recognised, measured and presented in line with IFRS 16 *Leases*.

Identifying a lease

The 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 the Group obtains substantially all the economic benefits from the use of that asset, and whether the Group has the right to direct the use of the asset.

Lease term

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

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

Recognition

The 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/£ 5,000. The commencement date is the date on which a lessor makes an underlying asset available for use by the 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 the Group and an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset or restoring the site on which the asset is located.

The 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. The Group recognises asset restoration obligations mainly in relation to leased head office locations and branches and any other space which would need to be restored to their previous condition when the lease ends.

Subsequent measurement of right-of-use asset

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

The 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.

1 Accounting policies *continued*

(n) Leases continued

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, the Group's incremental borrowing rate. The Group uses its incremental borrowing rate as the discount rate.

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

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

Subsequent measurement of lease liability

After the commencement date, the 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 remeasuring the carrying amount to reflect any reassessment or lease modifications.

The lease liability is measured at amortised cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the 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 the 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, the 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), the Group must allocate the consideration in the modified contract to the lease components, determine the lease term of the modified lease and remeasure the lease liability by discounting the revised lease payments using a revised discount rate.

Sublease accounting

Where the 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), the Group assesses whether the sub-lease is a finance or operating lease by reference to the right-of-use asset being leased, not the actual underlying asset.

1 Accounting policies *continued*

(o) Determination of fair value of financial instruments

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

Financial instruments are initially recognised at fair value and, with the exception of financial assets at fair value through profit or loss, the initial carrying amount is adjusted for direct and incremental transaction costs. In the normal course of business, the fair value on initial recognition is the transaction price (fair value of consideration given or received). If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is determined by a quoted price in an active market for the same financial instrument, or by a valuation technique which uses only observable market inputs, the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss. If the fair value is calculated by a valuation technique that features significant market inputs that are not observable, the difference between the fair value at initial recognition and the transaction price is deferred. Subsequently, the difference is recognised in the income statement on an appropriate basis over the life of the financial instrument, but no later than when the valuation is supported by wholly observable inputs; the transaction matures; or is closed out.

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

Quoted prices in active markets

Quoted market prices are used where those prices are considered to represent actual and regularly occurring market transactions for financial instruments in active markets.

Valuations for negotiable instruments such as debt and equity securities are determined using bid prices for asset positions and ask prices for liability positions.

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

Valuation techniques

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

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

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

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

1 Accounting policies *continued*

(o) Determination of fair value of financial instruments continued

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.

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

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

Transfers between levels of the fair value hierarchy

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

(p) 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 the Group. The liability to the counterparty is included separately on the statement of financial position. Similarly, when securities are purchased subject to a commitment to resell (‘reverse repos’), or where the Group borrows securities, but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not usually included in the statement of financial position. The difference between the sale and repurchase price is accrued over the life of the agreements using the effective interest rate method. Securities lent to counterparties are also retained in the financial statements. The exception to this is where these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss included in trading income.

(q) Derivatives and hedge accounting

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

The Group maintains trading positions in a variety of financial instruments including derivatives. Trading transactions arise both as a result of activity generated by customers and from proprietary trading with a view to generating incremental income.

Non-trading derivative transactions comprise transactions held for hedging purposes as part of the Group’s risk management strategy against assets, liabilities, positions and cash flows.

Derivatives

Derivatives are measured initially at fair value on the date on which the derivative contract is entered into and subsequently remeasured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and from valuation techniques using discounted cash flow models and option pricing models as appropriate. Derivatives are included in assets when their fair value is positive, and in liabilities when their fair value is negative, unless there is the legal ability and intention to settle an asset and liability on a net basis.

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

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

1 Accounting policies *continued*

(q) Derivatives and hedge accounting continued

Hedging

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

All derivatives are carried at fair value and the accounting treatment of the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Where derivatives are held for risk management purposes, and where transactions meet the criteria specified in IAS 39 *Financial Instruments: Recognition and Measurement*, the Group designates certain derivatives as either:
- Hedges of the fair value of recognised assets or liabilities or firm commitments (‘fair value hedge’); or
- Hedges of the exposure to variability of cash flows attributable to a recognised asset or liability, or a highly probable forecasted Transaction (‘cash flow hedge’); or
- Hedges of a net investment in a foreign operation.

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

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

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

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

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

Fair value hedge accounting

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

1 Accounting policies *continued*

(q) Derivatives and hedge accounting continued

Cash flow hedge accounting

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

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

Net investment hedge

Hedges of net investments in foreign operations, including monetary items that are accounted for as part of the net investment, are accounted for similarly to cash flow hedges. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and the ineffective portion is recognised immediately in the income statement. The cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement on the disposal or partial disposal of the foreign operation. Hedges of net investments may include non-derivative liabilities as well as derivative financial instruments.

Derivatives that do not qualify for hedge accounting

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

(r) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Relevant costs incurred with the disposal of a financial asset are deducted in computing the gain or loss on disposal.

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

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

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate or is less than adequate for performing the servicing.

The write-off of a financial asset constitutes a derecognition event. Where a financial asset is partially written-off, and the portion written-off comprises specifically identified cash flows, this will constitute a derecognition event for that part written-off.

1 Accounting policies *continued*

(s) Impairment of financial assets

The Group recognises loss allowances for expected credit losses at each balance sheet date for the following financial instruments that are not measured at FVTPL:
- Financial assets at amortised cost;
- Financial assets at FVOCI (except for equity instruments);
- Lease receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued.

Investments in equity instruments are recognised at fair value and accordingly, expected credit losses ("ECLs") are not recognised separately for equity instruments.

ECLs are the weighted average of credit losses. When measuring ECLs, the Group takes into account:
- Probability-weighted outcomes;
- The time value of money so that ECLs are discounted to the reporting date; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The amount of ECLs recognised as a loss allowance depends on the extent of credit deterioration since initial recognition. There are two measurement bases:
- 12-month ECLs (Stage 1), which applies to all items as long as there is no significant deterioration in credit quality since initial recognition; and
- Lifetime ECLs (Stages 2 and 3), which applies when a significant increase in credit risk has occurred on an individual or collective basis.

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

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

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

A financial asset can only originate in either Stage 1 or as purchased or originated credit impaired ("POCI"). The ECL held against an asset depends on a number of factors, one of which is its stage allocation. Assets allocated to Stage 2 and Stage 3 have lifetime ECLs. Collateral and other credit enhancements are not considered as part of stage allocation. Collateral is reflected in the Group's loss given default models ("LGD").

Purchased or originated credit impaired

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

POCIs are financial assets originated credit impaired that have a discount to the contractual value when measured at fair value. The Group uses an appropriate discount rate for measuring ECL in the case of POCIs which is the credit-adjusted EIR. This rate is used to discount the expected cash flows of such assets to fair value on initial recognition.

POCIs remain outside of the normal stage allocation process for the lifetime of the obligation. The ECL for POCIs is always measured at an amount equal to lifetime expected credit losses. The amount recognised as a loss allowance for these assets is the cumulative changes in lifetime expected credit losses since the initial recognition of the assets rather than the total amount of lifetime expected credit losses.

1 Accounting policies *continued*

(s) Impairment of financial assets continued

At each reporting date, the Group recognises the amount of the change in lifetime expected credit losses as a credit impairment gain or loss in the income statement. Favourable changes in lifetime expected credit losses are recognised as a credit impairment gain, even if the favourable changes exceed the amount previously recognised in profit or loss as a credit impairment loss.

Modification

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

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

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

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

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

Where renegotiation of the terms of a financial asset leads to a customer granting equity to the Group in exchange for any loan balance outstanding, the new instrument is recognised at fair value with any difference to the loan carrying amount recognised in the income statement.

Derecognition occurs if a modification or restructure is substantial on a qualitative or quantitative basis. Accordingly, certain forborne assets are derecognised. The modified/restructured asset (derecognised forborne asset ('DFA')) is considered a 'new financial instrument' and the date that the new asset is recognised is the date of initial recognition from this point forward. DFAs are allocated to Stage 1 on origination and follow the normal staging process thereafter.

If there is evidence of credit impairment at the time of initial recognition of a DFA, and the fair value at recognition is at a discount to the contractual amount of the obligation, the asset is deemed to be a POCI. POCIs are not allocated to stages but are assigned a lifetime PD and ECL for the duration of the obligation's life. Where the modification/restructure of a non-forborne credit obligation results in derecognition, the new loan is originated in Stage 1 and follows the normal staging process thereafter.

Collateralised financial assets – Repossessions

The ECL calculation for a collateralised financial asset reflects the cash flows that may result from foreclosure, costs for obtaining and settling the collateral, and whether or not foreclosure is probable.

For loans that are credit impaired, the Group may repossess collateral previously pledged as security in order to achieve an orderly realisation of the loan. The Group will then offer this repossessed collateral for sale. However, if the Group believes the proceeds of the sale will comprise only part of the recoverable amount of the loan with the customer remaining liable for any outstanding balance, the loan continues to be recognised and the repossessed asset is not recognised. However, if the Group believes that the sale proceeds of the asset will comprise all or substantially all of the recoverable amount of the loan, the loan is derecognised and the acquired asset is accounted for in accordance with the applicable accounting standard. Any further impairment of the repossessed asset is treated as an impairment of that asset and not as a credit impairment of the original loan.

Financial assets at FVOCI

The ECL allowance for financial assets measured at FVOCI does not reduce the carrying amount in the statement of financial position because the carrying amount of these assets is fair value. However, an amount equal to the ECL allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income ('OCI') as an accumulated credit impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit or loss upon derecognition of the assets (together with other accumulated gains and losses in OCI).

1 Accounting policies *continued*

(s) Impairment of financial assets continued

Write-offs and debt forgiveness

The Group reduces the gross carrying amount of a financial asset either partially or fully when there is no reasonable expectation of recovery.

Where there is no formal debt forgiveness agreed with the customer, the Group may write off a loan either partially or fully when there is no reasonable expectation of recovery. This is considered a non-contracted write-off. In this case, the borrower remains fully liable for the credit obligation and is not advised of the write-off.

Once a financial asset is written-off either partially or fully, the amount written-off cannot subsequently be recognised on the balance sheet. It is only when cash is received in relation to the amount written-off that income is recognised in the income statement as a ‘recovery of bad debt previously written-off.

Debt forgiveness arises where there is a formal contract agreed with the customer for the write-off of a loan.

(t) Collateral and netting

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

Collateral

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

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

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

Netting

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

(u) Financial guarantees and loan commitment contracts

Financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities (‘facility guarantees’) and to other parties in connection with the performance of customers under obligations relating to contracts, advance payments made by other parties, tenders, retentions and the payment of import duties. In its normal course of business, Allied Irish Banks, p.l.c. (the principal operating company) issues financial guarantees to other Group entities.

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

The origination date for financial guarantees and loan commitment contracts is the date when the contracts become irrevocable. The credit risk at this date is used to determine if a significant increase in credit risk has subsequently occurred.

Financial guarantees and loan commitments are initially recognised in the financial statements at fair value on the date that the guarantee is given. Subsequent to initial recognition, the Group applies the impairment provisions of IFRS 9 *Financial Instruments* and calculates an ECL allowance for financial guarantees and loan commitment contracts (i.e. those that are not measured at FVTPL).

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

1 Accounting policies *continued*

(v) Property, plant and equipment

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

The Group uses the following useful lives when calculating depreciation:

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

The Group 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.

The Group reviews its depreciation rates regularly, at least annually, to take account of any change in circumstances. When deciding on useful lives and methods, the principal factors that the Group takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of, the assets. When reviewing residual values, the Group estimates the amount that it would currently obtain for the disposal of the asset, after deducting the estimated cost of disposal if the asset was already of the age and condition expected at the end of its useful life.

Gains and losses on disposal of property, plant and equipment are included in the income statement. It is Group policy not to revalue its property, plant and equipment.

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

(w) Intangible assets

Computer software and other intangible assets

Computer software and other intangible assets are stated at cost, less amortisation on a straight line basis and provisions for impairment, if any. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred. Capitalised computer software is amortised over 3 to 9 years. Other intangible assets are amortised over the life of the asset. Computer software and other intangible assets are reviewed for impairment when there is an indication that the asset may be impaired. Intangible assets not yet available for use are reviewed for impairment on an annual basis.

Acquired intangible assets

Customer related intangible assets and brands acquired in a business combination are recognised at fair value at acquisition date.

Customer related intangible assets and brands have a finite useful life and are carried at cost less accumulated amortisation and provision for impairment, if any. Amortisation is calculated using the straight line basis to allocate the cost over their estimated useful life (6 years).

(x) Impairment of property, plant and equipment, goodwill and intangible assets

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

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

1 Accounting policies *continued*

(x) Impairment of property, plant and equipment, goodwill and intangible assets continued

The carrying values of property, plant and equipment, goodwill 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.

(y) Disposal groups and non-current assets held for sale

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

On initial classification as held for sale, generally, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to the income statement. The same applies to gains and losses on subsequent remeasurement. However, financial assets within the scope of IFRS 9 *Financial Instruments* continue to be measured in accordance with that standard.

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

Gains and losses on remeasurement and impairment losses subsequent to classification as disposal groups and non-current assets held for sale are shown within continuing operations in the income statement, unless they qualify as discontinued operations.

Disposal groups and non-current assets held for sale which are not classified as discontinued operations are presented within other assets and other liabilities on the statement of financial position.

(z) Non-credit risk provisions

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

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

Restructuring costs

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

Legal claims and other contingencies

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

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

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

1 Accounting policies *continued*

(aa) Equity

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

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

Share capital

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

Share premium

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

Share issue costs

Incremental costs directly attributable to the issue of new shares or options are charged, net of tax, to equity.

Dividends and distributions

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or in the case of the interim dividend when they become irrevocable having already been approved for payment by the Board of Directors. The interim dividend may be cancelled at any time prior to the actual payment.

Dividends declared after the end of the reporting date are disclosed in note 51.

Other equity interests

Other equity interests include:

- Additional Tier 1 Perpetual Contingent Temporary Write-down Securities (AT1s) (note 37); and
- Warrants to acquire a fixed number of the company shares for a fixed amount of currency are classified as equity instruments and are recognised on initial recognition at the fair value of consideration received.

Distributions on the AT1s are recognised in equity when approved for payment by the Board of Directors.

Other capital reserves

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

Capital contributions

Capital contributions represent the receipt of non-refundable considerations arising from transactions with the Irish Government (note 47). These contributions comprise both financial and non-financial net assets. The contributions are classified as equity and may be either distributable or non-distributable. Capital contributions are distributable if the assets received are in the form of cash or another asset that is readily convertible to cash, otherwise, they are treated as non-distributable. Capital contributions in the statement of financial position arose during 2011 from (a) EBS transaction and (b) non-refundable receipts from the Irish Government and the NPRFC.

The capital contribution from the EBS transaction is treated as non-distributable as the related net assets received were largely non-cash in nature.

Non-refundable receipts of € 6,054 million from the Irish Government and the NPRFC are distributable. These are included in revenue reserves.

1 Accounting policies *continued*

(aa) Equity continued

Capital redemption reserves

Capital redemption reserves initially arose in 2015 from the redemption of 2,140 million 2009 Preference Shares whereby on redemption, the nominal value of shares redeemed was transferred from the share capital account to the capital redemption reserve account. In addition, the nominal value of cancelled ordinary shares is also transferred from the share capital to the capital redemption reserve account.

Revaluation reserves

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

Investment securities reserves

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

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

Cash flow hedging reserves

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

Revenue reserves

Revenue reserves include the following:
- Retained earnings of the parent company, subsidiaries and associated undertakings;
- Amounts transferred from issued share capital, share premium and capital redemption reserves following Irish High Court approval;
- Amounts arising from the capital reduction which followed the 'Scheme of Arrangement' undertaken by the Group in December 2017;
- Remeasurements of defined benefit pension schemes; and
- Transactions with owners including distributions and buybacks.

Foreign currency cumulative translation reserves

The foreign currency cumulative translation reserves represent the cumulative gains and losses on the retranslation of the Group's net investment in foreign operations, at the rate of exchange at the year end reporting date net of the cumulative gain or loss on instruments designated as net investment hedges.

Merger reserve

The merger reserve arose following the Scheme of Arrangement approved by the Irish High Court in December 2017 where a new company, AIB Group plc ('the Company'), was introduced as the holding company of AIB Group (note 38).

In the consolidated financial statements of AIB Group plc, the carrying value of the investment in Allied Irish Banks, p.l.c. by AIB Group plc was eliminated against the share capital and share premium account in Allied Irish Banks, p.l.c. and the merger reserve in AIB Group plc resulting in a negative merger reserve.

In AIB Group plc's company financial statements, impairment losses which arise from AIB Group plc's investment in Allied Irish Banks, p.l.c. will be charged to the profit or loss account and transferred to the merger reserve in so far as a credit balance remains in the merger reserve.

Non-controlling interests

Non-controlling interests comprise equity interests which relate to the interests of outside shareholders in consolidated subsidiaries. They also include other equity instruments such as additional tier 1 securities if issued by consolidated subsidiaries.

1 Accounting policies *continued*

(ab) Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value and with a maturity of less than three months from the date of acquisition.

(ac) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses. The Group has identified reportable segments on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker (“CODM”) in order to allocate resources to the segment and assess its performance. Based on this identification, the reportable segments are the operating segments within the Group, the head of each being a member of the Executive Committee. The Executive Committee is the CODM and it relies primarily on the management accounts to assess performance of the reportable segments and when making resource allocation decisions.

Transactions between operating segments are on normal commercial terms and conditions, with internal charges and transfer pricing adjustments reflected in the performance of each operating segment. Revenue sharing agreements are used to allocate external customer revenues to an operating segment on a reasonable basis.

Geographical segments provide products and services within a particular economic environment that is subject to risks and rewards that are different to those components operating in other economic environments. The geographical distribution of revenue is based primarily on the location of the office recording the transaction. The geographic distribution of loans and related impairment is based on the country of risk.

(ad) Prospective accounting changes

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

IFRS 17 *Insurance Contracts*

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* as issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issues them, as well as certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. The Group has completed an initial assessment of the impacts of adopting IFRS 17 and it has concluded that it does not expect any material impact on its financial statements from the adoption of the new standard in 2023.

Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2: Disclosure of Accounting Policies

The amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 regarding disclosure of accounting policies which were issued in February 2021, amends IAS 1 in the following way:

- Disclosure of material accounting policy information is now required instead of significant accounting policies.
- Amendments have been included to clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial and if users of an entity’s financial statements would need it to understand other material information in the financial statements.

Effective date: Annual reporting periods beginning on or after 1 January 2023. These amendments will not have a material impact on the Group.

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

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

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

Effective date: Annual reporting periods beginning on or after 1 January 2023. These amendments will not have a material impact on the Group.

1 Accounting policies *continued*

(ad) Prospective accounting changes continued

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

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

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

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

Effective date: Annual reporting periods beginning on or after 1 January 2023. These amendments will not have a material impact on the Group.

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

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

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

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

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

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

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

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

Other

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

2 Critical accounting judgements and estimates

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

The accounting judgements that are deemed critical to the Group's results and financial position, in terms of the materiality of the items to which the judgements are applied, and the estimates that have a significant risk of material adjustment in the next year are set out below.

Significant judgements

The significant judgements made by the Group in applying its accounting policies are as follows:
- Deferred taxation;
- Impairment of financial assets; and
- Provisions for liabilities and commitments.

The application of certain of these judgements also necessarily involves estimations which are discussed separately.

Deferred taxation

The Group's accounting policy for deferred tax is set out in accounting policy (k) in note 1. Details of the Group's deferred tax assets and liabilities are set out in note 27.

A key judgement in relation to the recoverability of deferred tax assets is that it is probable that there will be sufficient future taxable profits against which the losses can be used:
- *The estimated utilisation period for such losses in Ireland is within the timeframe that taxable profits are considered more likely than not; and*
- *15 years is the period that taxable profits are considered more likely than not in the UK.*

Deferred tax assets are recognised for unused tax losses to the extent that it is probable (defined for this purpose as more likely than not) that there will be sufficient future taxable profits against which the losses can be used. For a company with a history of recent losses, there must be convincing other evidence to underpin this assessment.

The recognition of these deferred tax assets relies on the assessment of future profitability and the sufficiency of those profits to absorb losses carried forward. It requires significant judgements to be made about the projection of long term future profitability because of the period over which recovery extends.

In assessing the future profitability of the Group, the Board has considered a range of positive and negative evidence for this purpose. Among this evidence, the principal positive factors include:
- AIB as a pillar bank with a strong Irish franchise;
- The absence of any expiry dates for Irish and UK tax losses;
- The changing banking landscape in Ireland as KBC and Ulster Bank exit the Irish market as evidenced by the acquisition of certain Ulster Bank loans by the Group;
- The strong performance of the Irish economy in 2022 with growth forecasts being revised higher during the year;
- A positive interest rate environment with Central Banks increasing Euro, Sterling and Dollar interest rates during 2022;
- The recent inorganic activity of the Group including the completed acquisition of Goodbody in 2021 and the Group's investment in AIB JV Holdings Limited being the Group's joint venture with Great-West Lifeco Inc.;
- The turnaround evident in the financial performance over the years 2021-2022;
- External economic forecasts for Ireland in the medium term, with forecasted growth in 2023 of 4%, outperforming the global economy;
- The introduction of the bank resolution framework under the BRRD and the establishment in 2017 of AIB Group plc as the new holding company of the Group provides greater confidence in relation to the future viability of Allied Irish Banks, p.l.c. (as the principal operating bank subsidiary) as there are now effective tools in place that should facilitate its recapitalisation in a future crisis; and
- The non-enduring nature of the loan impairments at levels which resulted in the losses in the 2009 to 2013 prior years.

The Board considered negative evidence and the inherent uncertainties in any long term financial assumptions and projections, including:
- The absolute level of deferred tax assets compared to the Group's equity;
- The quantum of profits required to be earned and the extended period over which it is projected that the tax losses will be utilised;
- The challenge of forecasting over a long period, taking account of the level of competition, market dynamics (including the interest rate environment) and resultant margin and funding pressures;
- Any potential longer term residual impacts of COVID-19 and post-Brexit EU/UK trade deal on the Irish economy;
- Potential instability arising from macroeconomic headwinds and geopolitical issues over an extended period; and
- Taxation changes (including Organisation for Economic Co-operation and Development ("OECD") tax reform) and the likelihood of future developments and their impact on profitability and utilisation.

2 Critical accounting judgements and estimates *continued*

Deferred taxation *continued*

Profitability and growth were reassessed in the annual planning exercise covering the period 2023 to 2025 undertaken by the Group in the second half of 2022. Profitability levels underpinning the plan have been revised upwards compared to last year given the changing banking landscape and evolving operating environment.

Taking account of all relevant factors, and in the absence of any expiry date for tax losses in Ireland, the Group further believes that it is more likely than not that there will be future profits in the medium term, and beyond, in the relevant Irish Group companies against which to use the tax losses. In this regard, the Group has carried out an exercise to determine the likely number of years required to utilise the deferred tax asset under the following scenario. Using the Group's financial plan 2023 to 2025 as a base and a profit growth rate of 2% from 2026, it was assessed that it will take less than 15 years for the Irish deferred tax asset (€ 2.5 billion) to be utilised. Furthermore, under this scenario, it is expected that c. 65% will be utilised within 10 years. If the growth rate assumption was decreased by 1%, then the utilisation period increases by a further c.1 year. The Group's analysis of this and other scenarios examined would not alter the basis of recognition or the current carrying value. In 2021, the Group reported that it expected that it would take in excess of 20 years for the deferred tax asset to be utilised with 92% being utilised within 20 years and 64% within 15 years.

Given the relative size of the Group's operations in the UK compared to the role that the Irish operations play in supporting a functioning banking environment, a different judgement has been applied to the period that taxable profits are considered more likely than not in the UK. Despite the absence of any expiry date for tax losses in the UK, the Group has concluded that the recognition of deferred tax assets in its UK subsidiary be limited to the amount projected to be realised within a time period of 15 years. This is the timescale within which the Group believes that it can assess the likelihood of its UK profits arising as being more likely than not.

However, for certain other subsidiaries and branches, the Group has also concluded that it is more likely than not that there will be insufficient profits to support the recognition of deferred tax assets.

The amount of recognised deferred tax assets arising from unused tax losses amounts to € 2,741 million (2021: € 2,840 million) of which € 2,546 million (2021: € 2,645 million) relates to Irish tax losses and € 196 million (2021: € 195 million) relates to UK tax losses. IAS 12 *Income Tax* does not permit a company to apply present value discounting to its deferred tax assets or liabilities, regardless of the estimated timescales over which those assets or liabilities are projected to be realised. The Group's deferred tax assets are projected to be realised over a long timescale, benefiting from the absence of any expiry date for Irish or UK tax losses. As a result, the carrying value of the deferred tax assets on the statement of financial position does not reflect the economic value of those assets.

Impairment of financial assets

The Group's accounting policy for impairment of financial assets is set out in accounting policy (s) in note 1. Details of the Group's ECL allowance are set out in note 21.

The calculation of the ECL allowance is complex and requires the use of a number of accounting judgements.

The most significant judgements applied by the Group in determining the ECL allowance are as follows:

- *Determining the criteria for a significant increase in credit risk and for being classified as credit impaired;*
- *Applying the definition of default policy for classifying financial assets as credit impaired; and*
- *Determining the need for and an appropriate methodology for post-model adjustments.*

The significant management judgements and the governance process, relating to ECL, are set out on page 150 and 151 in the Risk Management section.

Provisions for liabilities and commitments

The Group's accounting policy for provisions for liabilities and commitments is set out in accounting policy (z) in note 1. Details of the Group's provision for liabilities and commitments are shown in note 34.

Significant management judgement is required to determine whether the Group has a present obligation as a result of a past event and whether it is probable an outflow of resources will be required to settle the obligation.

The Group recognises liabilities where it has present legal or constructive obligations as a result of past events and it is more likely than not that these obligations will result in an outflow of resources to settle the obligations and the amount can be reliably estimated.

Judgement is required in determining whether the Group has a present obligation and whether it is probable that an outflow of economic benefits will be required to settle this obligation. This judgement is applied to information available at the time of determining the provision including, but not limited to, judgements around interpretations of legislation, regulations and case law depending on the nature of the provision.

2 Critical accounting judgements and estimates *continued*

Critical accounting estimates

The accounting estimates with a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year were in relation to:
- Deferred taxation;
- Impairment of financial assets;
- Retirement benefit obligations;
- Provisions for liabilities and commitments; and
- Investment in subsidiary in the separate financial statements.

Deferred taxation

The Group's accounting policy for deferred tax is set out in accounting policy (k) in note 1. Details of the Group's deferred tax assets and liabilities are set out in note 27.

The most significant source of estimation uncertainty in relation to deferred tax is the forecast profit over the 15 year period that is used to determine the deferred tax asset for unutilised losses in the Group's principal UK subsidiary, which is based on the Group's annual plan.

The deferred tax asset for unutilised tax losses in the Group's principal UK subsidiary amounts to £ 165 million at 31 December 2022 (31 December 2021: £ 164 million).

On an annual basis profitability and growth are reassessed in the annual planning exercise undertaken by the Group. Growth assumptions and profitability levels underpinning the plan are reassessed and reflect the revised macroeconomic outlook and the current market as well as revised business strategies.

Forecast profits for the 15 year period are subject to uncertainty with a range of possibilities. Subsequent forecasts of profits in future years may be higher or lower which could result in a significant risk of adjustment to the carrying amounts of deferred tax assets, within the next financial year.

Impairment of financial assets

The Group's accounting policy for impairment of financial assets is set out in accounting policy (s) in note 1. Details of the Group's expected credit loss ("ECL") allowance are set out in note 21.

The calculation of the ECL allowance is complex and therefore an entity must consider large amounts of information in their determination. This process requires significant use of estimates and assumptions, some of which by their nature, are highly subjective and very sensitive to risk factors such as changes to economic conditions. Changes in the ECL allowance can materially affect net income.

ECL allowance for Loans and advances to customers at 31 December 2022 amounted to € 1,618 million (2021: € 1,885 million). The ECL for financial assets represents management's best estimate of the expected credit losses on the various portfolios at the respective reporting dates.

The key estimates and assumptions that the Directors have used in determining the ECL allowance are as follows:
- *Inputs into discounted cash-flows ('DCFs') for certain Stage 3 credit impaired obligors;*
- *Establishing the number and relative weightings for forward looking scenarios;*
- *The assumptions for measuring ECL (e.g. PD, LGD and EAD and the parameters to be included within the models for modelled ECL); and*
- *The estimation of post model adjustments where required.*

Discounted cash flows ("DCFs") are the most significant input to the ECL calculation for Stage 3 credit impaired borrowers where the gross credit exposure is ≥ € 1 million for Ireland or ≥ £ 500,000 for the UK. Collateral valuations and the estimated time to realisation of collateral is a key component of the DCF model. The DCF assessment produces a base case ECL which is then adjusted to incorporate the impact of multiple scenarios on the base ECL. The size of the adjustment must consider all relevant and supportable information, including but not limited to, historical data analysis, predictive modelling and management judgement.

The macroeconomic variables used in models to calculate ECL allowance are based on assumptions, forecasts and estimates against a backdrop of the residual impact of the COVID-19 pandemic and the economic landscape which are continuously evolving. Accordingly, developments with regard to the pandemic and changes in local and international factors could have a material bearing on the ECL allowance within the next financial year. The Group's sensitivity to a range of macroeconomic factors under (i) base forecast; (ii) upside; and (iii) downside scenarios is set out on pages 144 to 148 of the Risk Management section of this report.

Certain of these estimates may have a significant risk of material adjustment to carrying amounts of assets within the next financial year.

2 Critical accounting judgements and estimates *continued*

Impairment of financial assets *continued*

The Group has developed a standard approach for the measurement of ECL for the majority of the Group's exposures where each ECL input parameter (e.g. PD, LGD and EAD) is developed in line with standard modelling methodology. These are discussed further on page 142 and 143 of the Risk Management section. In addition, 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 may consider it appropriate for an adjustment to ECL. These are referred to as post model adjustments and are set out in detail on page 150 and 151.

On an ongoing basis, the various estimates and assumptions are reviewed in light of differences between actual and previously calculated expected losses. These are then recalibrated and refined to reflect current and evolving economic conditions. The management process for the calculation of ECL allowance is underpinned by second-line levels of review. The ECL allowance is, in turn, reviewed and approved by the Group Credit Committee on a quarterly basis with final Group levels being approved by the Board Audit Committee. Further detail on the ECL governance process is set out on page 151.

Retirement benefit obligations

The Group's accounting policy for retirement benefit obligations is set out in accounting policy (j) in note 1. Details of the Group's retirement benefit obligations are set out in note 28.

The key estimates and assumptions that the Directors have used in determining the retirement benefit obligation are as follows:

- *In a situation where the Group believes the Trustee has the ability to grant discretionary increases without any funding being provided by the Group, the Group has assumed that the Trustee will grant increases and as a result the scheme's liabilities include an estimate for this matter; and*
- *The significant actuarial assumptions used to determine the present value of the retirement benefit obligation.*

The Trustee of the Irish Scheme has awarded an increase, in certain years, in respect of pensions eligible for discretionary pension in payment increases notwithstanding a decision by the Group not to fund such increases. This reflected the ability of the Trustee to grant an increase when the financial position of the scheme would enable such an increase at that point in time.

Taking these decisions by the Trustee into consideration, the long term assumption for future increases in pension in payment reflects an assessment of the Trustee's ability to grant further increases without any funding from the Group, capped at a long-term inflation assumption.

Having taken actuarial advice the Group has adopted a rate of 2.6%, being a long term inflation assumption, and which has increased the scheme liabilities by € 886 million at 31 December 2022 (31 December 2021: 0.65%, € 350 million respectively).

The actuarial valuation of the schemes' liabilities is dependent upon a number of financial and demographic assumptions which are inherently uncertain. Changes to those assumptions could materially impact the reported amount for schemes' liabilities and the actuarial gains/losses reported in equity. Details of the assumptions adopted by the Group in calculating the schemes' liabilities are set out in note 28 to the financial statements. A sensitivity analysis for the principal assumptions used to measure the schemes' liabilities is set out in note 28 to the financial statements.

Provisions for liabilities and commitments

The Group's accounting policy for provisions for liabilities and commitments is set out in accounting policy (z) in note 1. Details of the Group's provision for liabilities and commitments are shown in note 34.

The most significant source of estimation uncertainty, in relation to provisions, is the assumptions that the Group makes about future events affecting different classes of provisions including the future outcome of litigation as well as the outcome of restitution activities.

The recognition and measurement of liabilities, in certain instances, may involve a high degree of uncertainty, and thereby, considerable time is expended on research in establishing the facts, scenario testing, assessing the probability of the outflow of resources and estimating the amount of any loss. However, at the earlier stages of provisioning, the amount provided for can be very sensitive to the assumptions used and there may be a wide range of possible outcomes in particular cases. Accordingly, in such cases, it is often not practicable to quantify a range of possible outcomes. In addition, it is also not practicable to measure ranges of outcomes in aggregate in a meaningful way because of the diverse nature of these provisions and the differing fact patterns. The estimated potential losses will change over time and the actual losses may vary significantly.

The overall provision amounting to € 262 million includes € 60 million in respect of the FSPO decision relating to tracker mortgage customers and a number of separate provisions, the majority of which are not individually significant and which do not have a significant risk of a material adjustment in the next financial year. The Group has not disclosed a range of outcomes for such provisions given their diverse nature and the number of provisions involved.

2 Critical accounting judgements and estimates *continued*

Provisions for liabilities and commitments *continued*

Note 34 sets out the background and the current position as regards the FSPO decision regarding a tracker complaint and the level of provisions that were set aside. Notwithstanding the payments to customers have effectively concluded the level of provision required for other costs, including tax liabilities arising that the Group will be required to discharge on behalf of impacted customers, has been reassessed at € 60 million. These issues are subject to uncertainty with a range of outcomes possible with the final outcome being higher or lower depending on finalisation of such issues.

Investment in subsidiary in the separate financial statements

The Group's accounting policy for the impairment of investment in subsidiary undertakings is set out in accounting policy (d) in note 1 of the Group financial statements. Details of the Company's investment in subsidiary are shown in note (e) to the Company's financial statements.

The key estimates and assumptions that the Directors have used, in assessing the value-in-use (VIU) of its investment in subsidiary undertakings, are as follows:

- *The estimation of expected cash flows based on the financial plan for 2023-2025;*
- *The assumption of an appropriate growth rate; and*
- *The estimation of an appropriate discount rate including the assumption of an appropriate risk free rate and the assumption of an appropriate credit spread.*

The investment in subsidiary in the separate financial statements of the Company are reviewed for impairment when there are indications that impairment losses may have occurred. If any such indications exist, the Company undertakes an impairment review by comparing the carrying value of the investment in the subsidiary with its estimated recoverable amount with any shortfall being reported as an impairment charge in the Company's financial statements. The estimated recoverable amount is based on VIU calculations.

The Company tested its investment in Allied Irish Banks, p.l.c. at 31 December 2022 to determine whether the impairment losses recognised in previous periods no longer existed or may have decreased. In determining the VIU, the estimated pre-tax cash flow projections in the Company's financial plan for the period 2023 to 2025 were used as a base and a growth rate of 2% from 2025 was assumed into perpetuity. These projections were discounted at a risk adjusted interest rate of 12.5%. The VIU was calculated at € 12,260 million which resulted in a reversal of € 3,282 million of previous impairments.

Given the uncertainties and the high level of subjectivity involved in the estimation process, it is possible that the outcomes in the next financial year could differ from the expectations on which the Company's estimates are based resulting in the recognition and measurement of materially different amounts from those estimated in these financial statements.

Details of the VIU calculation and the sensitivity of current estimates to possible changes in key variables are set out in note e to the Company's financial statements.

3 Segmental information

Segment overview

The Group's performance is managed and reported across the Retail Banking, AIB Capital Markets ("Capital Markets"), AIB UK and Group segments. Segment performance excludes exceptional items.

Retail Banking

Our leading Irish retail franchise provides a comprehensive range of products and services to over 2.9m customers delivered through our branch, digital and phone banking channels; with an expanded reach into the retail customer base via EBS, Haven, AIB Merchant Services, Payzone, Nifti and AIB Life.

- Homes & Consumer are responsible for meeting the homes and everyday banking needs of customers in Ireland by delivering innovative products, propositions and services and for growing our market leading positions. Our aim is to achieve a seamless and transparent customer experience across all our products and services including mortgages, current accounts, personal lending, payments and credit cards, deposits, insurance and wealth.
- SME serves our micro and small SME customers through our sector-led strategy and local expertise with an extensive product and services offering. Our aim is to help our customers create and build sustainable businesses in their communities.
- FSG is our dedicated centre of excellence for the management of the vast majority of the Group's non-performing exposures (NPEs), with the objective of supporting our customers in difficulty and delivering the Group's strategy to reduce NPEs.

Capital Markets

Capital Markets provides institutional, corporate and business banking services to the Group's larger customers and customers requiring specific sector or product expertise. Capital Markets' relationship driven model serves customers through sector specialist teams including: corporate banking, real estate finance, business banking and energy, climate action & infrastructure.

In addition to traditional credit products, Capital Markets offers customers foreign exchange and interest rate risk management products, cash management products, trade finance, mezzanine finance, structured and specialist finance and equity investments, as well as Private Banking services and advice. Capital Markets also has syndicated and international finance teams based in Dublin and in New York. In 2021 Goodbody became part of Capital Markets, bringing additional capability in wealth management, corporate finance, asset management and wider capital markets propositions.

AIB UK

AIB UK offers corporate, retail and business banking services in two distinct markets;

- a sector-led corporate bank supporting mid to large corporates focused on renewables, infrastructure, housing, commercial real estate, health and manufacturing/industrial businesses across both Great Britain and Northern Ireland, where the Bank has recognised expertise. Services include lending, treasury, trade facilities, asset finance and invoice discounting.
- a full service retail bank in Northern Ireland ("AIB (NI)") to personal and business customers with a focus on mortgage and business lending.

Group

Group comprises wholesale treasury activities and Group control and support functions. Treasury manages the Group's liquidity and funding positions and provides customer treasury services and economic research. The Group control and support functions in the period included Technology, Operations, Finance, Risk, Legal, Corporate Governance & Customer Care, Human Resources, Sustainability and Corporate Affairs, Enterprise Development and Group Internal Audit.

Segment allocations

In 2022 the Group made changes to the methodologies used to allocate cost and income across operating segments in order to enhance the management of standalone segment performance. Under the Group's revised cost allocation methodology substantially all of the costs of the Group's control, support and Treasury functions are now allocated to Retail Banking, Capital Markets and AIB UK whereas the previous methodology resulted in overheads which were managed centrally being reported in the Group segment. In addition certain Bank levies and regulatory fees, such as the Irish bank levy, which were previously reported in Group segment, are now allocated to the Retail Banking and Capital Market segments. Figures for the prior year have been restated on a comparative basis.

Funding and liquidity income/charges are based on each segment's funding requirements and the Group's funding cost profile, which is informed by wholesale and retail funding costs. Income attributable to capital is allocated to segments based on each segment's capital requirement.

3 Segmental information *continued*

							2022
	Retail Banking	**Capital Markets**	**AIB UK**	**Group**	**Total**	**Exceptional items** (1)	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Operations by business segment							
Net interest income	**1,186**	**565**	**294**	**114**	**2,159**	**—**	**2,159**
Net fee and commission income*	**387**	**149**	**46**	**5**	**587**	**1** (7)	**588**
Other	**31**	**84**	**10**	**24**	**149**	**17** (2)(5)	**166**
Other income	**418**	**233**	**56**	**29**	**736**	**18**	**754**
Total operating income	**1,604**	**798**	**350**	**143**	**2,895**	**18**	**2,913**
Other operating expenses	**(1,151)**	**(325)**	**(172)**	**(11)**	**(1,659)**	**(249)**	**(1,908)**
Of which: Personnel expenses	*(502)*	*(196)*	*(80)*	*(2)*	*(780)*	*(17)* (3)-(5)	*(797)*
General and administrative expenses	*(414)*	*(87)*	*(67)*	*(7)*	*(575)*	*(195)* (4)-(7)	*(770)*
Depreciation, impairment and amortisation	*(235)*	*(42)*	*(25)*	*(2)*	*(304)*	*(37)* (5)	*(341)*
Bank levies and regulatory fees	**(50)**	**(12)**	**(1)**	**(92)**	**(155)**	**—**	**(155)**
Total operating expenses	**(1,201)**	**(337)**	**(173)**	**(103)**	**(1,814)**	**(249)**	**(2,063)**
Operating profit/(loss) before impairment losses	**403**	**461**	**177**	**40**	**1,081**	**(231)**	**850**
Net credit impairment writeback/(charge)	**144**	**(102)**	**(49)**	**—**	**(7)**	**—**	**(7)**
Operating profit/(loss)	**547**	**359**	**128**	**40**	**1,074**	**(231)**	**843**
Income from equity accounted investments	**7**	**25**	**5**	**—**	**37**	**—**	**37**
Profit/(loss) before taxation	**554**	**384**	**133**	**40**	**1,111**	**(231)**	**880**

(1) Exceptional items are shown separately above. These are items that Management view as distorting comparability of performance year-on-year. Exceptional items include:
(2) Gain on disposal of loan portfolios;
(3) Termination benefits;
(4) Restitution costs;
(5) Restructuring costs;
(6) Inorganic transaction costs; and
(7) Other.

For further information on these items see page 60.

					2022
	Retail Banking	**Capital Markets**	**AIB UK**	**Group**	**Total**
***Analysis of net fee and commission income**	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Customer accounts	**176**	**18**	**14**	**18**	**226**
Card income	**134**	**9**	**13**	**—**	**156**
Foreign exchange fees	**44**	**30**	**10**	**2**	**86**
Credit related fees	**7**	**29**	**14**	**—**	**50**
Specialised payment services fees	**137**	**—**	**—**	**—**	**137**
Stockbroking client fees and commissions	**—**	**47**	**—**	**—**	**47**
Asset management and advisory fees	**—**	**12**	**—**	**—**	**12**
Other fees and commissions	**51**	**11**	**2**	**(13)** (1)	**51**
Fee and commission income	**549**	**156**	**53**	**7**	**765**
Specialised payment services expenses	**(120)**	**—**	**—**	**—**	**(120)**
Card expenses	**(37)**	**(2)**	**(5)**	**—**	**(44)**
Other fee and commission expenses	**(5)**	**(5)**	**(1)**	**(2)**	**(13)**
Fee and commission expense	**(162)**	**(7)**	**(6)**	**(2)**	**(177)**
	387	**149**	**47** (2)	**5**	**588**

(1) Reflects the allocation of the Group's segment fee and commission income to Retail Banking and Capital Markets segments.
(2) Includes € 1 million reported under exceptional items.

Further information on 'Net fee and commission income' is set out in note 6.

3 Segmental information *continued*

	Retail Banking	Capital Markets	AIB UK	Group	Total	Exceptional items (1)	2021 Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Operations by business segment							
Net interest income	1,042	479	227	46	1,794	—	1,794
Net fee and commission income*	333	106	45	(4)	480	—	480
Other	34	31	8	37	110	(8) (4)(6)	102
Other income	367	137	53	33	590	(8)	582
Total operating income	1,409	616	280	79	2,384	(8)	2,376
Other operating expenses	(1,082)	(256)	(186)	(10)	(1,534)	(310)	(1,844)
Of which: Personnel expenses	*(478)*	*(155)*	*(100)*	*(5)*	*(738)*	*(58)* (2)-(4)	*(796)*
General and administrative expenses	*(382)*	*(69)*	*(58)*	*(3)*	*(512)*	*(209)* (3)-(6)	*(721)*
Depreciation, impairment and amortisation	*(222)*	*(32)*	*(28)*	*(2)*	*(284)*	*(43)* (4)(6)	*(327)*
Bank levies and regulatory fees	(49)	(11)	(1)	(101)	(162)	—	(162)
Total operating expenses	(1,131)	(267)	(187)	(111)	(1,696)	(310)	(2,006)
Operating profit/(loss) before impairment losses	278	349	93	(32)	688	(318)	370
Net credit impairment writeback	86	137	15	—	238	—	238
Operating profit/(loss)	364	486	108	(32)	926	(318)	608
Income from equity accounted investments	16	1	4	—	21	—	21
Profit/(loss) before taxation	380	487	112	(32)	947	(318)	629

(1) Exceptional items are shown separately above. These are items that Management view as distorting comparability of performance year-on-year. Exceptional items include:
(2) Termination benefits;
(3) Restitution costs;
(4) Restructuring costs;
(5) Inorganic transaction costs; and
(6) Other.

For further information on these items see page 60.

	Retail Banking	Capital Markets	AIB UK	Group	2021 Total
***Analysis of net fee and commission income**	€ m	€ m	€ m	€ m	€ m
Customer accounts	160	15	15	18	208
Card income	93	7	11	—	111
Foreign exchange fees	38	25	8	(4)	67
Credit related fees	9	27	14	—	50
Specialised payment services fees	133	—	—	—	133
Stockbroking client fees and commissions	—	18	—	—	18
Asset management and advisory fees	—	6	—	—	6
Other fees and commissions	50	11	1	(15) (1)	47
Fee and commission income	483	109	49	(1)	640
Specialised payment services expenses	(118)	—	—	—	(118)
Card expenses	(28)	(1)	(4)	—	(33)
Other fee and commission expenses	(4)	(2)	—	(3)	(9)
Fee and commission expense	(150)	(3)	(4)	(3)	(160)
	333	106	45	(4)	480

(1) Reflects the allocation of the Group's segment fee and commission income to Retail Banking and Capital Markets segments.

Further information on 'Net fee and commission income' is set out in note 6.

3 Segmental information *continued*

Other amounts – statement of financial position

	Retail Banking	**Capital Markets**	**AIB UK**	**Group**	**Total**
	31 December 2022				
	€ m	**€ m**	**€ m**	**€ m**	**€ m**
Loans and advances to customers:					
– measured at amortised cost	**34,165**	**18,215**	**6,969**	**15**	**59,364**
– measured at FVTPL	**—**	**249**	**—**	**—**	**249**
Total loans and advances to customers	**34,165**	**18,464**	**6,969**	**15**	**59,613**
Customer accounts	**75,798**	**16,240**	**9,097**	**1,224**	**102,359**

	Retail Banking	Capital Markets	AIB UK	Group	Total
	31 December 2021				
	€ m	€ m	€ m	€ m	€ m
Loans and advances to customers:					
– measured at amortised cost	33,144	15,143	7,965	13	56,265
– measured at FVTPL	—	243	—	—	243
Total loans and advances to customers	33,144	15,386	7,965	13	56,508
Customer accounts	65,227	14,470	11,831	1,338	92,866

	Ireland	**United Kingdom**	**Rest of the World**	**Total**
	Year to 31 December 2022			
Geographic information[1][2]	**€ m**	**€ m**	**€ m**	**€ m**
Gross external revenue	**2,868**	**64**	**(19)**	**2,913**
Inter-geographical segment revenue	**(316)**	**292**	**24**	**—**
Total revenue	**2,552**	**356**	**5**	**2,913**

	Ireland	United Kingdom	Rest of the World	Total
	Year to 31 December 2021			
Geographic information[1][2]	€ m	€ m	€ m	€ m
Gross external revenue	2,194	180	2	2,376
Inter-geographical segment revenue	(105)	100	5	—
Total revenue	2,089	280	7	2,376

Revenue from external customers comprises interest and similar income (note 4) and interest and similar expense (note 5), and all other items of income (notes 6 to 10).

	Ireland	**United Kingdom**	**Rest of the World**	**Total**
	31 December 2022			
Geographic Information	**€ m**	**€ m**	**€ m**	**€ m**
Non-current assets[3]	**1,426**	**48**	**2**	**1,476**

	Ireland	United Kingdom	Rest of the World	Total
	31 December 2021			
Geographic Information	€ m	€ m	€ m	€ m
Non-current assets[3]	1,562	62	3	1,627

(1) The geographical distribution of total revenue is based primarily on the location of the office recording the transaction.
(2) For details of significant geographic concentrations, see the Risk management section.
(3) Non-current assets comprise intangible assets and goodwill and property, plant and equipment.

4 Interest and similar income

	2022 **€ m**	2021 € m
Interest on loans and advances to customers at amortised cost	**1,877**	1,765
Interest on loans and advances to banks at amortised cost	**237**	7
Interest on securities financing at amortised cost	**42**	3
Interest on investment securities	**193**	70
Interest income on financial assets	**2,349**	1,845
Deposits by central banks and banks at amortised cost	**25**	103
Customer accounts at amortised cost	**57**	55
Securities financing at amortised cost	**1**	—
Negative interest on financial liabilities	**83**	158
Interest income calculated using the effective interest rate method	**2,432**	2,003
Interest income on finance leases and hire purchase contracts	**70**	74
Interest income on financial assets at FVTPL	**10**	7
Other interest income and similar income	**80**	81
Total interest and similar income	**2,512**	2,084

The Group presents interest resulting from negative effective interest rates on financial liabilities as interest income rather than as offset against interest expense.

Included in negative interest on financial liabilities is interest from the TLTRO III programme(1)(2). In 2022 negative interest expense of € 25 million was recognised. From 1 January 2022 to 23 June 2022 the negative interest expense was recognised using the Main Refinancing Operations rate minus 50 bps. The interest rate that applied for the period from 24 June 2022 to 22 November 2022 was the average interest rate on the Deposit Facility over the life of the respective TLTRO III funding up to 22 November. The interest rate that applied from 23 November 2022 to the final repayment date in December 2022 was the average ECB deposit facility rate over that period. In 2021 negative interest expense of € 102 million was recognised of which c. € 36 million was recognised using the Main Refinancing Operations rate minus 50 bps and the Group recognised additional interest income of € 66 million when it was determined that the Group had a reasonable expectation that the relevant lending targets would be met.

Interest income includes a credit of € 70 million (2021: a credit of € 161 million) transferred from other comprehensive income in respect of cash flow hedges which is included in 'Interest on loans and advances to customers at amortised cost'.

(1)The Group participated in the TLTRO programme for € 4 billion in September 2020 and a further € 6 billion in June 2021. Following a decision by the European Central Bank, in October 2022, to recalibrate the conditions of TLTRO III, the Group repaid its TLTRO borrowings in December 2022.

(2)The accounting policy and related judgements made by the Group in relation to interest income recognition for TLTRO are set out in note 1(f).

5 Interest and similar expense

	2022 € m	2021 € m
Interest on deposits by central banks and banks	**5**	1
Interest on customer accounts	**46**	53
Interest on securities financing	**11**	—
Interest on debt securities in issue	**134**	54
Interest on lease liabilities	**11**	12
Interest on subordinated liabilities and other capital instruments	**50**	41
Interest expense on financial liabilities	**257**	161
Cash and balances at central banks	**87**	115
Loans and advances to banks	**2**	3
Securities financing	**5**	6
Investment securities	**2**	5
Negative interest on financial assets	**96**	129
Interest expense calculated using the effective interest rate method	**353**	290

The Group presents interest resulting from negative effective interest rates on financial assets as interest expense rather than as offset against interest income.

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

Interest expense includes a credit of € 4 million (2021: a charge of € 19 million) transferred from other comprehensive income in respect of cash flow hedges which is included in ‘Interest on customer accounts’.

6 Net fee and commission income

	2022 € m	2021 € m
Customer accounts	**226**	208
Card income	**156**	111
Foreign exchange fees	**86**	67
Credit related fees	**50**	50
Specialised payment services fees(1)	**137**	133
Stockbroking client fees and commissions	**47**	18
Asset management and advisory fees	**12**	6
Other fees and commissions(2)	**51**	47
Fee and commission income	**765**	640
Specialised payment services expenses(1)	**(120)**	(118)
Card expenses(3)	**(44)**	(33)
Other fee and commissions expenses	**(13)**	(9)
Fee and commission expense	**(177)**	(160)
	588	480

(1) Specialised payment services: fee income and fee expenses in respect of services and prepaid credits for cellular phone and utilities sold to third parties.
(2) Other fees and commissions includes wealth commissions € 24 million (2021: € 23 million), insurance commissions € 12 million (2021: € 12 million), and other commissions € 15 million (2021: € 12 million).
(3) Card expenses includes credit card commissions of € 42 million (2021: € 31 million) and ATM expenses of € 2 million (2021: € 2 million).

Fees and commissions which are an integral part of the effective interest rate are recognised as part of interest and similar income (note 4) or interest and similar expense (note 5).

7 Net trading income

	2022 **€ m**	2021 € m
Foreign exchange contracts	**(69)**	(16)
Interest rate contracts and debt securities[1]	**35**	29
Credit derivative contracts	**3**	(3)
Equity investments, index contracts and warrants	**5**	5
Other[2]	**62**	—
	36	15

(1) Includes a gain of € 12 million (2021: gain of € 16 million) in relation to XVA adjustments. (XVA comprises counterparty valuation adjustments ("CVA") and funding valuation adjustments ("FVA")).

(2) Relates to the forward contract to acquire corporate and commercial loans from Ulster Bank. See notes 44 for further information.

The total hedging ineffectiveness on cash flow hedges reflected in the consolidated income statement amounted to Nil in 2022 (2021: Nil).

8 Net gain on other financial assets measured at FVTPL

	2022 **€ m**	2021 € m
Loans and advances to customers[1]	**14**	20
Investment securities – equity	**88**	58
	102	78

(1) Excludes interest income (note 4).

9 Net gain on derecognition of financial assets measured at amortised cost

	2022	
	Carrying value of derecognised financial assets measured at amortised cost **€ m**	**Gain from derecognition** **€ m**
Loans and advances to customers	**595**	**18**

	2021	
	Carrying value of derecognised financial assets measured at amortised cost € m	Gain from derecognition € m
Loans and advances to customers	1,100	1

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

10 Other operating income

	2022 **€ m**	2021 € m
(Loss)/gain on disposal of investment securities at FVOCI – debt	**(7)**	18
Gain/(loss) on termination of hedging swaps[1]	**4**	(12)
Miscellaneous operating income/(expense)	**11**	(1)
	8	5

(1) The majority of the gain/(loss) on termination of hedging swaps relates to the disposal of debt securities at FVOCI. In addition, it includes Nil (2021: € 1 million) transferred from other comprehensive income in respect of cash flow hedges.

11 Operating expenses

	2022 **€ m**	2021 € m
Personnel expenses:		
Wages and salaries	**620**	597
Termination benefits[1]	**7**	51
Retirement benefits[2]	**93**	91
Social security costs	**69**	67
Other personnel expenses[3][4]	**30**	15
	819	821
Less: staff costs capitalised[5]	**(22)**	(25)
Personnel expenses	**797**	796
General and administrative expenses[6]	**676**	548
Restitution and associated costs[7]	**94**	173
	770	721
Bank levies and regulatory fees	**155**	162
Operating expenses	**1,722**	1,679

(1) Relates to the voluntary severance programmes which includes a charge of £ 2 million (2021: £ 10 million) for the anticipated cost of voluntary severance arising as part of the restructuring of the UK business.
(2) Comprises a defined contribution charge of € 80 million (2021: a charge of € 79 million), a charge of € 4 million in relation to defined benefit expense (2021: a charge of € 3 million), and a long term disability payments/death in service benefit charge of € 9 million (2021: a charge of € 9 million). For details of retirement benefits, see note 28.
(3) Share-based payment charge of Nil (2021: Nil).
(4) Other personnel expenses include staff training, recruitment and various other staff costs.
(5) Staff costs capitalised relate to intangible assets.
(6) Includes € 27 million (2021: Nil) relating to the CBI Tracker Mortgage Examination fine. See note 34 for further information.
(7) Relates primarily to (a) Belfry provisions and associated costs and (b) the associated costs related to the Tracker Mortgage Examination.

The average number of employees for 2022 and 2021 is set out in note 48.

12 Net credit impairment (charge)/writeback

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

			2022			2021
Credit impairment (charge)/writeback on financial instruments	**Measured at amortised cost** **€ m**	**Measured at FVOCI** **€ m**	**Total** **€ m**	Measured at amortised cost € m	Measured at FVOCI € m	Total € m
Net remeasurement of ECL allowance						
Loans and advances to banks	**—**	**—**	**—**	—	—	—
Loans and advances to customers	**(50)**	**—**	**(50)**	158	—	158
Securities financing	**—**	**—**	**—**	(1)	—	(1)
Loan commitments	**(7)**	**—**	**(7)**	2	—	2
Financial guarantee contracts	**7**	**—**	**7**	4	—	4
Investment securities – debt	**(2)**	**—**	**(2)**	—	—	—
Credit impairment (charge)/ writeback	**(52)**	**—**	**(52)**	163	—	163
Recoveries of amounts previously written-off	**45**	**—**	**45**	75	—	75
Net credit impairment (charge)/writeback	**(7)**	**—**	**(7)**	238	—	238

13 Auditor's remuneration

The disclosure of auditor’s remuneration is in accordance with Section 322 of the Companies Act 2014. This mandates disclosure of remuneration paid/payable to the Group Auditor only (Deloitte Ireland LLP) for services relating to the audit of the Group and relevant subsidiary financial statements in the categories set out below.

	2022 **€ m**	2021 € m
Auditor’s remuneration *(excluding VAT):*		
Audit of Group financial statements	**3.0**	2.7
Other assurance services	**0.9**	0.8
Other non-audit services	**0.2**	0.1
Taxation advisory services	**—**	—
	4.1	3.6

All the above amounts are paid to the Group Auditor for services provided to the Group and its subsidiaries including Allied Irish Banks, p.l.c.

Other assurance services include remuneration for additional assurance issued by the firm outside of the audit of the statutory financial statements of the Group and subsidiaries. This remuneration includes assignments where the Auditor, in Ireland, provides assurance to third parties.

The Group policy on the provision of non-audit services to the parent and its subsidiary companies includes the prohibition on the provision of certain services and the pre-approval by the Board Audit Committee of the engagement of the Auditor for non-audit work.

The Board Audit Committee has reviewed the level of non-audit services remuneration and is satisfied that it has not affected the independence of the Auditor. It is Group policy to subject all large consultancy assignments to competitive tender, where appropriate.

The following table shows total remuneration paid to overseas auditors (excluding Deloitte Ireland LLP):

	2022 **€ m**	2021 € m
Auditor’s remuneration excluding Deloitte Ireland LLP *(excluding VAT)*	**1.1**	1.2

14 Taxation

	2022 € m	2021 € m
Current tax		
Corporation tax in Ireland		
Current tax on income for the year	**(5)**	(8)
Adjustments in respect of prior years	**(1)**	3
	(6)	(5)
Foreign tax		
Current tax on income for the year	**(27)**	(13)
Adjustments in respect of prior years	**—**	—
	(27)	(13)
Current tax charge for the year	**(33)**	(18)
Deferred tax		
Origination and reversal of temporary differences	**(6)**	(26)
Adjustments in respect of prior years	**—**	7
Recognition of deferred tax assets in respect of current period losses	**—**	4
(Decrease)/Increase in carrying value of deferred tax assets in respect of carried forward losses	**(76)**	49
Deferred tax (charge)/credit for the year	**(82)**	34
Total tax (charge)/credit for the year	**(115)**	16
Effective tax rate	**13.1 %**	(2.5)%

Factors affecting the effective tax rate

The following table sets out the difference between the tax charge that would result from applying the standard corporation tax rate in Ireland of 12.5% and the actual tax charge for the year:

	2022		2021	
	€ m	%	€ m	%
Profit before tax	**880**		629	
Tax charge at standard corporation tax rate in Ireland of 12.5%	**(110)**	**12.5**	(79)	12.5
Effects of:				
Foreign profits taxed at other rates	**(12)**	**1.4**	(9)	1.4
Expenses not deductible for tax purposes	**(17)**	**1.9**	(12)	1.9
Exempted income, income at reduced rates and tax credits	**1**	**(0.1)**	2	(0.3)
Share of results of investments accounted for using the equity method shown post tax in the income statement	**2**	**(0.2)**	2	(0.3)
Income taxed at higher tax rates	**(11)**	**1.3**	(11)	1.7
Tax legislation on equity distributions	**8**	**(0.9)**	8	(1.3)
Reversal of amounts previously not recognised	**16**	**(1.8)**	82	(13.0)
Other tax adjustments	**10**	**(1.2)**	1	—
Change in tax rates	**(1)**	**0.1**	22	(3.5)
Adjustments to tax charge in respect of prior years	**(1)**	**0.1**	10	(1.6)
Tax (charge)/credit	**(115)**	**13.1**	16	(2.5)

14 Taxation *continued*

Analysis of selected other comprehensive income

	2022			2021		
	Gross	**Tax**	**Net**	Gross	Tax	Net
	€ m	**€ m**	**€ m**	€ m	€ m	€ m
Retirement benefit schemes						
Remeasurement of defined benefit asset	**(20)**	**12**	**(8)**	19	(2)	17
Total	**(20)**	**12**	**(8)**	19	(2)	17
Foreign currency translation reserves						
Amounts reclassified from the foreign currency translation reserves to the income statement as a reclassification adjustment:						
– *amounts for which hedge accounting had previously been used, but for which the hedged future cash flows are no longer expected to occur*	**—**	**—**	**—**	—	—	—
– *amounts that have been transferred because the hedged item has affected the income statement*	**—**	**—**	**—**	—	—	—
Recognised in other comprehensive income:						
– *Net gains/(losses) on net investment hedges*	**79**	**(10)**	**69**	(100)	13	(87)
– *Exchange differences on translation of foreign operations*	**(140)**	**—**	**(140)**	174	—	174
Total	**(61)**	**(10)**	**(71)**	74	13	87
Cash flow hedging reserves						
Amounts reclassified from the cash flow hedging reserves to the income statement as a reclassification adjustment:						
– *amounts for which hedge accounting had previously been used, but for which the hedged future cash flows are no longer expected to occur*	**—**	**—**	**—**	—	—	—
– *amounts that have been transferred because the hedged item has affected the income statement*	**(74)**	**9**	**(65)**	(141)	18	(123)
Hedging (losses) recognised in other comprehensive income	**(1,833)**	**279**	**(1,554)**	(307)	39	(268)
Total	**(1,907)**	**288**	**(1,619)**	(448)	57	(391)
Investment debt securities at FVOCI reserves						
Fair value losses/(gains) transferred to income statement	**7**	**(1)**	**6**	(18)	2	(16)
Fair value losses recognised in other comprehensive income	**(216)**	**22**	**(194)**	(44)	6	(38)
Total	**(209)**	**21**	**(188)**	(62)	8	(54)

15 Earnings per share

The calculation of basic earnings per unit of ordinary shares is based on the profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue, excluding own shares held.

The diluted earnings per share is based on the profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue, excluding own shares held, adjusted for the effect of dilutive potential ordinary shares.

(a) Basic	**2022** **€ m**	2021 € m
Profit attributable to equity holders of the parent	**767**	647
Distributions on other equity interests *(note 37)*	**(65)**	(65)
Profit attributable to ordinary shareholders of the parent	**702**	582

	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the year	**2,688.3**	2,714.4
Earnings per share – basic	**EUR 26.1 c**	EUR 21.4 c

(b) Diluted	**2022** **€ m**	2021 € m
Profit attributable to ordinary shareholders of the parent *(note 15 (a))*	**702**	582

	Number of shares (millions)	
Weighted average number of ordinary shares in issue during the year	**2,688.3**	2,714.4
Potential weighted average number of shares	**2,688.3**	2,714.4
Earnings per share – diluted	**EUR 26.1 c**	EUR 21.4 c

The ordinary shares are included in the weighted average number of shares on a time apportioned basis.

Warrants

The Minister for Finance was issued warrants in 2017 to subscribe for 271,166,685 ordinary shares of AIB Group plc.

The warrants are exercisable during the period commencing 27 June 2018 and ending 27 June 2027 (see note 36 for further detail). These warrants were not included in calculating the diluted earnings per share as they were antidilutive.

16 Trading portfolio

	Trading portfolio financial assets		**Trading portfolio financial liabilities**	
	2022 **€ m**	2021 € m	**2022** **€ m**	2021 € m
Equity securities	**8**	8	**4**	2

17 Derivative financial instruments

Derivatives are used to service customer requirements, to manage the Group's interest rate, exchange rate, equity and credit exposures and for trading purposes. Derivative instruments are contractual agreements whose value is derived from price movements in underlying assets, interest rates, foreign exchange rates or indices.

Market risk is the exposure to potential loss through holding interest rate, exchange rate and equity positions in the face of absolute and relative price movements, interest rate volatility, movements in exchange rates and shifts in liquidity. Credit risk is the exposure to loss should the counterparty to a financial instrument fail to perform in accordance with the terms of the contract.

While notional principal amounts are used to express the volume of derivative transactions, the amounts subject to credit risk are much lower because derivative contracts typically involve payments based on the net differences between specified prices or rates.

Credit risk in derivative contracts is the risk that the Group's counterparty in the contract defaults prior to maturity at a time when the Group has a claim on the counterparty under the contract (i.e. contracts with a positive fair value). The Group would then have to replace the contract at the current market rate, which may result in a loss. For risk management purposes, consideration is taken of the fact that not all counterparties to derivative positions are expected to default at the point where the Group is most exposed to them.

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

			2022			2021
	Notional principal amount	**Fair values**		Notional principal amount	Fair values	
		Assets	**Liabilities**		Assets	Liabilities
Derivative financial instrument[1]	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
Interest rate contracts	**65,213**	**2,343**	**(2,900)**	51,694	806	(839)
Exchange rate contracts	**7,449**	**164**	**(72)**	11,277	76	(200)
Equity contracts	**83**	**4**	**—**	174	—	(17)
Credit derivatives	**43**	**—**	**(1)**	175	—	(6)
Other[2]	**1,232**	**—**	**(9)**	—	—	—
Total	**74,020**	**2,511**	**(2,982)**	63,320	882	(1,062)

(1) Interest rate, exchange rate, equity and credit derivative contracts are entered into for both hedging and trading purposes.
(2) Relates to a forward contract to acquire corporate and commercial loans from Ulster Bank. See notes 44 and 52 for further information.

The Group uses the same credit control and risk management policies in undertaking all off-balance sheet commitments as it does for on-balance sheet lending including counterparty credit approval, limit setting and monitoring procedures. In addition, derivative instruments are subject to the market risk policy and control framework as described in the 'Risk management' section of this report. The increase in interest rate contracts reflects the Group's hedging of net interest income in response to the sharp interest rate increases and market volatility in the period.

The following table analyses the notional principal amount of derivative financial instruments by residual maturity together with the positive fair value attaching to these contracts where relevant:

				2022				2021
	Less than 1 year	**1 to 5 years**	**5 years +**	**Total**	Less than 1 year	1 to 5 years	5 years+	Total
Residual maturity	**€ m**	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m
Notional principal amount	**22,230**	**28,326**	**23,464**	**74,020**	22,480	20,804	20,036	63,320
Positive fair value	**207**	**624**	**1,680**	**2,511**	86	211	585	882

17 Derivative financial instruments *continued*

The Group has the following concentration of exposures in respect of notional principal amount and positive fair value of derivative financial instruments. The concentrations are based primarily on the location of the office recording the transaction.

	Notional principal amount		Positive fair value	
	2022	2021	**2022**	2021
	€ m	€ m	**€ m**	€ m
Ireland	**71,328**	59,897	**2,411**	576
United Kingdom	**2,572**	3,304	**96**	295
United States of America	**120**	119	**4**	11
	74,020	63,320	**2,511**	882

Trading book activities

The Group maintains trading positions in a variety of financial instruments including derivatives. These derivative financial instruments include interest rate, foreign exchange, equity and credit derivatives. Most of these positions arise as a result of activity generated by corporate customers while the remainder represent trading decisions of the Group’s derivative and foreign exchange traders with a view to generating incremental income.

All trading activity is conducted within risk limits approved by the Board. Systems are in place which measure risks and profitability associated with derivative trading positions as market movements occur. Independent risk control units monitor these risks.

Banking book activities

In addition to meeting customer needs, the Group’s principal objective in holding or transacting derivatives is the management of interest rate and foreign exchange risks which arise within the banking book through the operations of the Group as outlined below. Market risk within the banking book is also controlled through limits approved by the Board and monitored by an independent second line risk function.

The operations of the Group are exposed to interest rate risk arising from the fact that assets and liabilities mature or reprice at different times or in differing amounts. Derivatives are used to modify the repricing or maturity characteristics of assets and liabilities in a cost-efficient manner. This flexibility helps the Group to achieve interest rate risk management objectives. Similarly, foreign exchange derivatives can be used to hedge the Group’s exposure to foreign exchange risk.

The fair values of derivatives fluctuate as the underlying market interest rates or foreign exchange rates change. If the derivatives are purchased or sold as hedges of statement of financial position items, the change in fair value of the derivatives will generally be offset by the change in fair value of the hedged items.

To achieve its risk management objectives, the Group uses a combination of derivative financial instruments, particularly interest rate swaps, cross currency interest rate swaps, futures, options and currency swaps, as well as other contracts. The risk that counterparties to derivative contracts (both trading and banking book) might default on their obligations is monitored on an ongoing basis. The level of credit risk is minimised by dealing with counterparties of good credit standing, by the use of Credit Support Annexes and ISDA Netting Agreements and increased clearing of derivatives through Central Clearing Counterparties ("CCP’s"). As the traded instruments are recognised at market value, any changes in market value directly affect reported income for a given period.

Ulster Bank forward contract

The Group entered into a binding agreement in 2021 to acquire performing Ulster Bank corporate and commercial loans which was subject to regulatory approval. This transaction is an asset acquisition as the Group concluded that it did not meet the definition of a business combination. Following the receipt of competition clearance in 2022, the contract to acquire the loans (which is not a regular way transaction) was recognised as a forward contract that is measured at FVTPL. The initial notional value of the forward contract represented the principal amount of the performing loans to be acquired by the Group from Ulster Bank. The notional value of the forward contract at 31 December 2022 represents the principal amount of performing loans to be acquired by the Group in 2023. Fair value gains/losses on the forward contract are reported within net trading income.

17 Derivative financial instruments *continued*

The following table shows the notional principal amount and the fair value of derivative financial instruments analysed by product and purpose at 31 December 2022 and 2021. A description of how the fair values of derivatives are determined is set out in note 44.

	2022			2021		
	Notional principal amount	**Fair Values**		Notional principal amount	Fair Values	
		Assets	**Liabilities**		Assets	Liabilities
	€ m	**€ m**	**€ m**	€ m	€ m	€ m
Derivatives held for trading						
Interest rate derivatives – over the counter ("OTC")						
Interest rate swaps	**5,067**	**114**	**(454)**	5,286	334	(353)
Cross-currency interest rate swaps	**421**	**—**	**(5)**	—	—	—
Interest rate options bought and sold	**2,305**	**28**	**(29)**	1,776	4	(3)
Total interest rate derivatives – OTC	**7,793**	**142**	**(488)**	7,062	338	(356)
Interest rates derivatives – OTC – central clearing						
Interest rate swaps	**4,417**	**379**	**(29)**	5,311	44	(26)
Total interest rate derivatives – OTC – central clearing	**4,417**	**379**	**(29)**	5,311	44	(26)
Interest rate derivatives – exchange traded						
Interest rate futures bought and sold	**79**	**—**	**—**	—	—	—
Total interest rate derivatives – exchange traded	**79**	**—**	**—**	—	—	—
Total interest rate derivatives	**12,289**	**521**	**(517)**	12,373	382	(382)
Foreign exchange derivatives – OTC						
Foreign exchange contracts	**5,985**	**121**	**(72)**	9,809	76	(160)
Currency options bought and sold	**5**	**—**	**—**	1	—	—
Total foreign exchange derivatives	**5,990**	**121**	**(72)**	9,810	76	(160)
Equity derivatives – OTC						
Equity index options bought and sold	**5**	**—**	**—**	12	—	—
Equity total return swaps	**78**	**4**	**—**	162	—	(17)
Total equity derivatives	**83**	**4**	**—**	174	—	(17)
Credit derivatives – OTC – central clearing						
Credit derivatives	**43**	**—**	**(1)**	175	—	(6)
Total credit derivatives	**43**	**—**	**(1)**	175	—	(6)
Other						
Forward contract [1]	**1,232**	**—**	**(9)**	—	—	—
Total	**1,232**	**—**	**(9)**	—	—	—
Total derivatives held for trading	**19,637**	**646**	**(599)**	22,532	458	(565)

(1) Relates to a forward contract to acquire corporate and commercial loans from Ulster Bank. See notes 44 and 52 for further information.

17 Derivative financial instruments *continued*

	2022			2021		
	Notional principal amount	**Fair values**		Notional principal amount	Fair values	
		Assets	**Liabilities**		Assets	Liabilities
	€ m	**€ m**	**€ m**	€ m	€ m	€ m
Derivatives held for hedging						
Derivatives designated as fair value hedges – OTC						
Interest rate swaps	**1,653**	**21**	**—**	2,324	22	(28)
Total derivatives designated as fair value hedges – OTC	**1,653**	**21**	**—**	2,324	22	(28)
Derivatives designated as fair value hedges – OTC – central clearing						
Interest rate swaps	**20,458**	**1,656**	**(433)**	16,902	234	(164)
Total interest rate fair value hedges – OTC – central clearing	**20,458**	**1,656**	**(433)**	16,902	234	(164)
Total derivatives designated as fair value hedges	**22,111**	**1,677**	**(433)**	19,226	256	(192)
Derivatives designated as cash flow hedges – OTC						
Interest rate swaps	**840**	**1**	**(17)**	1,940	35	(53)
Cross currency interest rate swaps	**—**	**—**	**—**	82	—	(6)
Total interest rate cash flow hedges – OTC	**840**	**1**	**(17)**	2,022	35	(59)
Derivatives designated as cash flow hedges – OTC – central clearing						
Interest rate swaps	**29,973**	**144**	**(1,933)**	18,073	133	(206)
Total interest rate cash flow hedges – OTC – central clearing	**29,973**	**144**	**(1,933)**	18,073	133	(206)
Total derivatives designated as cash flow hedges	**30,813**	**145**	**(1,950)**	20,095	168	(265)
Derivatives designated as net investment hedges – OTC						
Forward exchange contracts	**1,459**	**43**	**—**	1,467	—	(40)
Total derivatives designated as net investment hedges – OTC	**1,459**	**43**	**—**	1,467	—	(40)
Total derivatives held for hedging	**54,383**	**1,865**	**(2,383)**	40,788	424	(497)
Total derivative financial instruments	**74,020**	**2,511**	**(2,982)**	63,320	882	(1,062)

Fair value hedges

Fair value hedges are entered into to hedge the exposure to changes in the fair value of recognised assets or liabilities arising from changes in interest rates, primarily, debt securities and fixed rate liabilities. The fair values of financial instruments are set out in note 44. The net mark to market on fair value hedging derivatives, excluding accrual and risk adjustments at 31 December 2022 is positive € 1,168 million (2021: positive € 26 million) and the net mark to market on the related hedged items at 31 December 2022 is negative € 1,154 million (2021: negative € 27 million).

Netting financial assets and financial liabilities

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

Details on offsetting financial assets and financial liabilities are set out in note 39.

17 Derivative financial instruments *continued*

Nominal values and average interest rates by residual maturity

At 31 December 2022 and 2021, the Group held the following hedging instruments of interest rate risk and foreign exchange rate risk in fair value, cash flow and net investment hedges respectively:

						2022
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	5 years +	Total
Fair value hedges – Interest rate swaps						
Assets						
Hedges of investment securities – debt						
Nominal principal amount **(€ m)**	92	213	420	5,461	6,863	13,049
Average interest rate **(%)**(1)	0.84	0.02	0.87	0.66	0.56	0.60
Hedges of loans and advances to customers						
Nominal principal amount **(€ m)**	—	—	—	—	15	15
Average interest rate **(%)**(1)	—	—	—	—	2.60	2.60
Liabilities						
Hedges of debt securities in issue						
Nominal principal amount **(€ m)**	—	1,253	128	5,391	775	7,547
Average interest rate **(%)**(1)	—	1.00	4.75	3.10	5.73	3.05
Hedges of subordinated debt						
Nominal principal amount **(€ m)**	—	—	—	1,500	—	1,500
Average interest rate **(%)**(1)	—	—	—	2.54	—	2.54
Cash flow hedges – Interest rate swaps(2)						
Hedges of financial assets						
Nominal principal amount **(€ m)**	131	151	7,570	11,026	10,040	28,918
Average interest rate **(%)**(3)	0.86	0.88	1.48	1.33	0.97	1.24
Hedges of financial liabilities						
Nominal principal amount **(€ m)**	—	55	52	861	927	1,895
Average interest rate **(%)**(3)	—	0.21	1.14	1.41	1.80	1.56
Net investment hedges – Forward exchange contracts						
Nominal principal amount **(€ m)**	386	977	96	—	—	1,459
Forward FX rate **(%)** (4)	0.86	0.87	0.85	—	—	0.86

(1) Represents the fixed rate on the hedged item which is being swapped for a variable rate.

(2) Includes interest rate swaps and cross currency swaps used to hedge interest rate risk on variable rate EUR/GBP and EUR/USD assets and liabilities.

(3) This is the average interest rate on the fixed leg of swap agreements where the variable rate on the assets and liabilities in cash flow hedges is being swapped for a fixed rate.

(4) Being the forward FX rates on the hedging derivatives which are being used to hedge the Group's net investment in foreign operations.

17 Derivative financial instruments *continued*

Nominal values and average interest rates by residual maturity continued

						2021
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	5 years +	Total
Fair value hedges – Interest rate swaps						
Assets						
Hedges of investment securities – debt						
Nominal principal amount **(€ m)**	283	166	676	4,163	6,618	11,906
Average interest rate **(%)**(1)	0.34	0.09	0.65	0.43	0.23	0.32
Liabilities						
Hedges of debt securities in issue						
Nominal principal amount **(€ m)**	—	750	—	5,045	25	5,820
Average interest rate **(%)**(1)	—	0.63	—	2.17	5.12	1.99
Hedges of subordinated debt						
Nominal principal amount **(€ m)**	—	—	—	1,500	—	1,500
Average interest rate **(%)**(1)	—	—	—	2.54	—	2.54
Cash flow hedges – Interest rate swaps(2)						
Hedges of financial assets						
Nominal principal amount **(€ m)**	94	1,567	2,238	4,687	7,689	16,275
Average interest rate **(%)**(3)	0.22	0.08	0.43	0.48	0.29	0.34
Hedges of financial liabilities						
Nominal principal amount **(€ m)**	422	1,508	280	767	843	3,820
Average interest rate **(%)**(3)	0.22	0.21	0.54	0.95	1.75	0.72
Net investment hedges – Forward exchange contracts						
Nominal principal amount **(€ m)**	387	850	230	—	—	1,467
Forward FX rate **(%)**(4)	0.87	0.87	0.86	—	—	0.87

(1) Represents the fixed rate on the hedged item which is being swapped for a variable rate.

(2) Includes interest rate swaps and cross currency swaps used to hedge interest rate risk on variable rate EUR/GBP and EUR/USD assets and liabilities.

(3) This is the average interest rate on the fixed leg of swap agreements where the variable rate on the assets and liabilities in cash flow hedges is being swapped for a fixed rate.

(4) Being the forward FX rates on the hedging derivatives which are being used to hedge the Group’s net investment in foreign operations.

17 Derivative financial instruments *continued*

Fair value hedges of interest rate risk

The tables below set out the amounts relating to items designated as (a) hedging instruments and (b) hedged items in fair value hedges of interest rate risk together with the related hedge ineffectiveness at 31 December 2022 and 2021:

2022

		Carrying amount[1]					
	Nominal	Assets	Liabilities	Line item in SOFP* where the hedging instrument is included	Change in fair value used for calculating hedge ineffectiveness for the year	Hedge ineffectiveness recognised in the income statement	Line item in the income statement that includes hedge ineffectiveness
(a) Hedging instruments	€ m	€ m	€ m		€ m	€ m	
Interest rate swaps hedging:							
Investment securities – debt	13,049	1,669	(1)	Derivative financial instruments	1,679	18	Net trading income
Debt securities in issue	7,547	8	(294)	Derivative financial instruments	(407)	—	Net trading income
Subordinated debt	1,500	—	(138)	Derivative financial instruments	(128)	(2)	Net trading income

2022

	Carrying amount of hedged items recognised in the SOFP*		Accumulated amount of fair value hedge adjustments on the hedged items included in the carrying amount of the hedged item		Line item in SOFP* where hedged item is included	Change in fair value of hedged items used for calculating hedge ineffectiveness for the year	Accumulated amount of fair value hedge adjustments remaining in the SOFP* for any hedged items that have ceased to be adjusted for hedging gains and losses
	Assets	Liabilities	Assets	Liabilities			
(b) Hedged items	€ m	€ m	€ m	€ m		€ m	€ m
Investment securities – debt	11,652			(1,649)	Investment securities	(1,661)	—
Debt securities in issue		(7,203)	342		Debt securities in issue	407	—
Subordinated debt		(1,347)	153		Subordinated liabilities and other capital instruments	126	—

2021

		Carrying amount[1]					
	Nominal	Assets	Liabilities	Line item in SOFP* where the hedging instrument is included	Change in fair value used for calculating hedge ineffectiveness for the year	Hedge ineffectiveness recognised in the income statement	Line item in the income statement that includes hedge ineffectiveness
(a) Hedging Instruments	€ m	€ m	€ m		€ m	€ m	
Interest rate swaps hedging:							
Investment securities – debt	11,906	139	(171)	Derivative financial instruments	401	4	Net trading income
Debt securities in issue	5,820	117	(11)	Derivative financial instruments	(149)	—	Net trading income
Subordinated debt	1,500	—	(10)	Derivative financial instruments	22	—	Net trading income

2021

	Carrying amount of hedged items recognised in the SOFP*		Accumulated amount of fair value hedge adjustments on the hedged items included in the carrying amount of the hedged items		Line item in SOFP* where hedged item is included	Change in fair value of hedged items used for calculating hedge ineffectiveness for the year	Accumulated amount of fair value hedge adjustments remaining in the SOFP* for any hedged items that have ceased to be adjusted for hedging gains and losses
	Assets	Liabilities	Assets	Liabilities			
(b) Hedged items	€ m	€ m	€ m	€ m		€ m	€ m
Investment securities – debt	12,226		9		Investment securities	(397)	—
Debt securities in issue		(5,881)		(62)	Debt securities in issue	149	—
Subordinated debt		(1,474)	26		Subordinated liabilities and other capital instruments	(22)	—

(1) The net mark to market on fair value hedging derivatives, excluding accruals of € 76 million, is positive €1,168 million (2021: € 29 million and negative € 252 million).

*Statement of financial position

17 Derivative financial instruments *continued*

Cash flow hedges of interest rate

The tables below set out the amounts relating to (a) items designated as hedging instruments and (b) the hedged items in cash flow hedges of interest rate risk together with the related hedge ineffectiveness at 31 December 2022 and 2021:

											2022
		Carrying amount					Hedge ineffectiveness		Amounts reclassified from cash flow hedging reserves to the income statement		
	Nominal amount	Assets	Liabilities	Line item in the SOFP* where hedging instruments are included	Change in fair value of hedging instruments used for calculating hedge ineffectiveness in the year	Change in fair value of hedging instruments recognised in OCI in the year	Hedge Ineffectiveness recognised in the income statement	Line item in the income statement that includes hedge ineffectiveness	Amounts for which hedge accounting had been used but for which the hedged future cash flows are no longer expected to occur	Amounts that have been transferred because the hedged item has affected the income statement	Line item in the income statement affected by the reclassification
(a) Hedging Instruments	€ m	€ m	€ m		€ m	€ m	€ m		€ m	€ m	
Interest rate swaps(1)											
Derivative assets	28,918	7	(1,941)	Derivative financial instruments	(1,879)	(1,998)	—	Net trading income	—	70	Interest and similar income
Derivative liabilities	1,895	138	(9)	Derivative financial instruments	165	165	—	Net trading income	—	4	Interest and similar expense

(1) Hedging interest rate risk. These include both interest rate swaps and cross currency swaps, both of which are hedging interest rate risk.

						2022
	Line item in SOFP* in which hedged item is included	Change in fair value of hedged items used for calculating hedge ineffectiveness for the year	Amounts in the cash flow hedging reserves for continuing hedges(1) pre tax	Amounts in the cash flow hedging reserves for continuing hedges(1) post tax	Amounts remaining in the cash flow hedging reserves from any hedging relationship for which hedge accounting is no longer applied pre tax	Amounts remaining in the cash flow hedging reserves from any hedging relationship for which hedge accounting is no longer applied post tax
(b) Hedged items		€ m	€ m	€ m	€ m	€ m
Interest rate risk	Loans and advances to customers	1,879	(1,913)	(1,623)	47	41
Interest rate risk	Customer accounts	(165)	127	111	—	—

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

*Statement of financial position

17 Derivative financial instruments *continued*

Cash flow hedges of interest rate continued

2021

		Carrying amount					Hedge ineffectiveness		Amounts reclassified from cash flow hedging reserves to the income statement		
	Nominal amount	Assets	Liabilities	Line item in the SOFP* where hedging instruments are included	Change in fair value of hedging instruments used for calculating hedge ineffectiveness in the year	Change in fair value of the hedging instruments recognised in OCI in the year	Hedge Ineffectiveness recognised in the income statement	Line item in the income statement that includes hedge ineffectiveness	Amounts for which hedge accounting had been used but for which the hedged future cash flows are no longer expected to occur	Amounts that have been transferred because the hedged item has affected the income statement	Line item in the income statement affected by the reclassification
(a) Hedging instruments	€ m	€ m	€ m		€ m	€ m	€ m		€ m	€ m	
Interest rate swaps(1)											
Derivative assets	16,275	153	(209)	Derivative financial instruments	(606)	(514)	—	Net trading income	—	161	Interest and similar income
Derivative liabilities	3,820	15	(56)	Derivative financial instruments	67	66	—	Net trading income	—	(19)	Interest and similar expense

(1) Hedging interest rate risk. These include both interest rate swaps and cross currency interest rate swaps, both of which are hedging interest rate risk.

2021

(b) Hedged items	Line item in SOFP* in which hedged item is included	Change in fair value of hedged items used for calculating hedge ineffectiveness for the year	Amounts in the cash flow hedging reserves for continuing hedges(1) pre tax	Amounts in the cash flow hedging reserves for continuing hedges(1) post tax	Amounts remaining in the cash flow hedging reserves from any hedging relationship for which hedge accounting is no longer applied pre tax	Amounts remaining in the cash flow hedging reserves from any hedging relationship for which hedge accounting is no longer applied post tax
		€ m	€ m	€ m	€ m	€ m
Interest rate risk	Loans and advances to customers	606	(13)	(11)	221	193
Interest rate risk	Customer accounts	(67)	(38)	(33)	—	—

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

* Statement of financial position

17 Derivative financial instruments *continued*

Cash flow hedges

The table below sets out the hedged cash flows which are expected to occur in the following periods:

	2022				
	Within 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**
Forecast receivable cash flows	**940**	**610**	**1,038**	**810**	**3,398**
Forecast payable cash flows	**67**	**55**	**106**	**66**	**294**

	2021				
	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
	€ m	€ m	€ m	€ m	€ m
Forecast receivable cash flows	62	52	125	102	341
Forecast payable cash flows	50	24	28	21	123

The table below sets out the hedged cash flows, including amortisation of terminated cash flow hedges, which are expected to impact the income statement in the following periods:

	2022				
	Within 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**
Forecast receivable cash flows	**940**	**610**	**1,038**	**810**	**3,398**
Forecast payable cash flows	**99**	**74**	**109**	**60**	**342**

	2021				
	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
	€ m	€ m	€ m	€ m	€ m
Forecast receivable cash flows	62	52	125	102	341
Forecast payable cash flows	118	77	118	50	363

Ineffectiveness reflected in the income statement that arose from cash flow hedges in 2022 amounted to Nil (2021: Nil).

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

The total amount recognised in other comprehensive income net of tax in respect of cash flow hedges in 2022 was a loss of € 1,619 million (2021: a loss of € 391 million).

17 Derivative financial instruments *continued*

Hedges of net investment in foreign operations

The tables below set out the amounts relating to (a) items designated as hedging instruments and (b) the hedged items in hedges of the net investment in foreign operations together with the related hedge ineffectiveness at 31 December 2022.

2022

		Carrying amount					Hedge ineffectiveness		Amounts reclassified from foreign currency translation reserves to the income statement		
	Nominal amount	Assets	Liabilities	Line item in the SOFP* where hedging instruments are included	Change in fair value of hedging instruments used for calculating hedge ineffectiveness in the year	Change in fair value of hedging instruments recognised in OCI in the year	Hedge Ineffectiveness recognised in the income statement	Line item in the income statement that includes hedge ineffectiveness	Amounts for which hedge accounting had been used but for which the hedged future cash flows are no longer expected to occur	Amounts that have been transferred because the hedged item has affected the income statement	Line item in the income statement affected by the reclassification
(a) Hedging Instruments	**€ m**	**€ m**	**€ m**		**€ m**	**€ m**	**€ m**		**€ m**	**€ m**	
Foreign exchange contracts											
Derivative assets	1,459	43	—	Derivative Financial Instruments	79	79	—	Net trading income	—	—	Other Income
Derivative liabilities	—	—	—	Derivative Financial Instruments	—	—	—	Net trading income	—	—	Other Income

2022

	Line item in SOFP* in which hedged item is included	Change in fair value of hedged items used for calculating hedge ineffectiveness for the year	Amount in the foreign currency translation reserves for continuing hedges pre tax	Amounts in the foreign currency translation reserves for continuing hedges post tax	Amounts remaining in the foreign currency translation reserves from any hedging relationship for which hedge accounting is no longer applied pre tax	Amounts remaining in the foreign currency translation reserves from any hedging relationship for which hedge accounting is no longer applied post tax
(b) Hedged items		**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Net investment in UK subsidiary	Reserves	(79)	(22)	(19)	—	—

*Statement of financial position

17 Derivative financial instruments *continued*

Hedges of net investment in foreign operations continued

											2021
		Carrying amount					Hedge ineffectiveness		Amounts reclassified from foreign currency translation reserves to the income statement		
(a) Hedging Instruments	Nominal amount	Assets	Liabilities	Line item in the SOFP* where hedging instruments are included	Change in fair value of hedging instruments used for calculating hedge ineffectiveness in the year	Change in fair value of hedging instruments recognised in OCI in the year	Hedge Ineffectiveness recognised in the income statement	Line item in the income statement that includes hedge ineffectiveness	Amounts for which hedge accounting had been used but for which the hedged future cash flows are no longer expected to occur	Amounts that have been transferred because the hedged item has affected the income statement	Line item in the income statement affected by the reclassification
	€ m	€ m	€ m		€ m	€ m	€ m		€ m	€ m	
Foreign exchange contracts											
Derivative assets	1,467	—	(40)	Derivative Financial Instruments	(100)	(100)	—	Net trading income	—	—	Other Income
Derivative liabilities	—	—	—	Derivative Financial Instruments	—	—	—	Net trading income	—	—	Other Income

						2021
(b) Hedged items	Line item in SOFP* in which hedged item is included	Change in fair value of hedged items used for calculating hedge ineffectiveness for the year	Amount in the foreign currency translation reserves for continuing hedges pre tax	Amounts in the foreign currency translation reserves for continuing hedges post tax	Amounts remaining in the foreign currency translation reserves from any hedging relationship for which hedge accounting is no longer applied pre tax	Amounts remaining in the foreign currency translation reserves from any hedging relationship for which hedge accounting is no longer applied post tax
		€ m	€ m	€ m	€ m	€ m
Net investment in UK subsidiary	Reserves	100	(100)	(87)	—	—

*Statement of financial position

18 Loans and advances to banks

	2022 € m	2021 € m
At amortised cost		
Funds placed with central banks	**262**	361
Funds placed with other banks	**1,240**	962
	1,502	1,323
ECL allowance	**—**	—
Total loans and advances to banks	**1,502**	1,323

Loans and advances to banks by geographical area(1)	2022 € m	2021 € m
Ireland	**1,100**	814
United Kingdom	**398**	505
United States of America	**4**	4
	1,502	1,323

(1) The classification of loans and advances to banks by geographical area is based primarily on the location of the office recording the transaction.

Loans and advances to banks include cash collateral of € 963 million (2021: € 590 million) placed with derivative counterparties in relation to net derivative positions and placed with repurchase agreement counterparties. In addition, these include € 5 million (2021: € 4 million) relating to restricted balances held in trust in respect of certain payables which are included in 'other liabilities' (note 33).

19 Loans and advances to customers

	2022 € m	2021 € m
At amortised cost		
Loans and advances to customers	**59,397**	56,496
Amounts receivable under finance leases and hire purchase contracts	**1,585**	1,654
	60,982	58,150
ECL allowance	**(1,618)**	(1,885)
	59,364	56,265
Mandatorily at fair value through profit or loss		
Loans and advances to customers	**249**	243
Total loans and advances to customers	**59,613**	56,508
Additional information:		
Amounts which are repayable on demand or at short notice	**1,954**	2,213
Amounts due from associated undertakings(1)	**18**	3

(1) Undrawn commitments amount to € 133 million and are for less than one year (2021: € 81 million).

Loans and advances to customers include cash collateral amounting to € 15 million (2021: € 12 million) placed with derivative counterparties.

For details of credit quality of loans and advances to customers, including forbearance, refer to the ‘Risk management’ section of this report.

Amounts receivable under finance leases and hire purchase contracts

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

	2022 € m	2021 € m
Gross receivables		
Not later than 1 year	**638**	653
Later than 1 year and not later than 2 years	**443**	453
Later than 2 years and not later than 3 years	**320**	332
Later than 3 years and not later than 4 years	**191**	203
Later than 4 years and not later than 5 years	**89**	97
Later than 5 years	**17**	18
Total	**1,698**	1,756
Unearned future finance income	**(121)**	(116)
Deferred costs incurred on origination	**8**	14
Present value of minimum payments	**1,585**	1,654
ECL allowance for uncollectible minimum payments receivable(1)	**63**	87

(1) Included in 'ECL allowance on financial assets' (note 21).

20 Securities financing

Securities financing consists of (a) securities borrowing and lending and (b) sale and repurchase transactions.

Reverse repurchase agreements involve purchases of securities with an agreement to resell substantially identical investments at a fixed price on a certain future date. Securities borrowing and securities lending transactions are generally entered into on a collateralised basis, with debt securities and equities, usually advanced or received as collateral. Securities sold under agreements to repurchase involves sales of securities with agreements to repurchase substantially identical investments at a fixed price on a certain future date.

			2022			2021
	Banks	**Customers**	**Total**	Banks	Customers	Total
	€ m	**€ m**	**€ m**	€ m	€ m	€ m
Assets						
Reverse repurchase agreements	**2,888**	**29**	**2,917**	1,463	—	1,463
Securities borrowing transactions	**2,431**	**934**	**3,365**	1,506	921	2,427
Total (1)	**5,319**	**963**	**6,282**	2,969	921	3,890
Liabilities						
Securities sold under agreements to repurchase	**898**	**—**	**898**	45	—	45
Total	**898**	**—**	**898**	45	—	45

(1) Classified as ECL Stage 1 and have an ECL of € 1 million at 31 December 2022 (31 December 2021: € 1 million).

In accordance with the terms of the reverse repurchase agreements and securities borrowing agreements, the Group accepts collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. At 31 December 2022, the total fair value of the collateral received was € 6,282 million (2021: € 3,890 million), none of which had been resold or repledged. These transactions were conducted under terms that are usual and customary to standard reverse repurchase agreements and securities borrowing agreements.

Securities sold under agreements to repurchase mature within six months and are secured by debt securities and eligible assets. At 31 December 2022, in relation to securities sold under agreements to repurchase, the Group had pledged collateral with a fair value of € 898 million (2021: € 45 million). These transactions were conducted under the normal market agreements for standard repurchase transactions.

21 ECL allowance on financial assets

The following table shows the movements on the ECL allowance on financial assets. Further information is disclosed in the 'Risk management' section of this report.

	2022	2021
	€ m	€ m
At 1 January	**1,888**	2,511
Exchange translation adjustments	**(13)**	30
Net re-measurement of ECL allowance – investment securities-debt	**2**	—
Net re-measurement of ECL allowance – banks	**—**	—
Net re-measurement of ECL allowance – customers	**50**	(158)
Net re-measurement of ECL allowance – securities financing	**—**	1
Changes in ECL allowance due to write-offs	**(94)**	(105)
Changes in ECL allowance due to disposals	**(210)**	(393)
Acquisition of subsidiary – stockbroking client debtors	**—**	1
Other	**—**	1
At 31 December	**1,623**	1,888
Amount included in financial assets measured at amortised cost:		
Investment securities – debt	**3**	1
Loans and advances to banks	**—**	—
Loans and advances to customers	**1,618**	1,885
Securities financing	**1**	1
Other assets – stockbroking client debtors	**1**	1
At 31 December	**1,623**	1,888

22 Investment securities

The following table analyses the carrying value of investment securities by major classification at 31 December 2022 and 2021.

	2022 € m	2021 € m
Debt securities at FVOCI		
Government securities	**3,824**	4,752
Supranational banks and government agencies securities	**1,298**	1,260
Asset backed securities	**453**	495
Bank securities	**5,763**	5,565
Corporate securities	**499**	517
Total debt securities at FVOCI	**11,837**	12,589
Debt securities at amortised cost		
Government securities	**2,052**	2,514
Supranational banks and government agencies securities	**166**	203
Asset backed securities	**1,628**	1,102
Bank securities	**73**	85
Corporate securities	**212**	167
Total debt securities at amortised cost	**4,131**	4,071
Total debt securities	**15,968**	16,660
Equity securities		
Equity investments at FVTPL	**302**	274
Total equity securities	**302**	274
Total investment securities	**16,270**	16,934

The following table analyses total debt securities by ECL stage:

Gross amount		
Stage 1	**15,961**	16,661
Stage 2	**10**	—
Total debt securities	**15,971**	16,661
ECL(1)	**(3)**	(1)
Carrying value	**15,968**	16,660

(1) Relates to debt securities at amortised cost.

23 Investments accounted for using the equity method

Share of net assets including goodwill	**2022** **€ m**	2021 € m
At 1 January	**127**	98
Investment in associated undertakings	**21**	5
Investment in joint venture	**24**	3
Disposal of investment in associated undertaking	**(11)**	—
Share of results of equity accounted investments (after tax)	**12**	21
At 31 December	**173**	127

Of which:		
Associates	**159**	124
Joint ventures	**14**	3

Investments in associated undertakings comprises the Group's investment in AIB Merchant Services, Synch Payments d.a.c, Clearpay d.a.c., First Home Scheme DAC and Autolease Fleet Management.

Investments in joint ventures comprises the Group's investment in AIB JV Holdings Limited being the Group's joint venture with Great-West Lifeco Inc.

Included in the income statement is the contribution net of tax from investments accounted for using the equity method as follows:

Income statement	**2022** **€ m**	2021 € m
Share of results of equity accounted investments (after tax)		
Associates[1]	**25**	21
Joint ventures	**(13)**	—
	12	21
Profit on disposal of investment in associated undertaking	**25**	—
Income from equity accounted investments	**37**	21

(1) Includes AIB Merchant Services € 27 million (2021: € 22 million).

The following is the principal associate company of the Group at 31 December 2022 and 2021:

			Proportion of ownership interest and voting power held by the Group	
Name of associate	**Principal activity**	**Place of incorporation and operation**	**2022** **%**	2021 %
Zolter Services d.a.c. (holds 100% of First Merchant Processing Ireland d.a.c, trading as AIB Merchant Services)	Provider of merchant payment solutions	Registered Office: Unit 6, Belfield Business Park, Clonskeagh, Dublin 4 Ireland	**49.9**	49.9

All associates and joint ventures are accounted for using the equity method in these consolidated financial statements.

Banking transactions between the Group and its associated undertakings/joint ventures are entered into in the normal course of business. For further information see notes 19 and 30.

In accordance with Sections 316 and 348 of the Companies Act 2014 and the European Communities (Credit Institutions: Financial Statements) Regulations 2015, AIB Group plc will annex a full listing of associated undertakings to its annual return to the Companies Registration Office.

There was no unrecognised share of losses of associates or joint ventures at 31 December 2022 or 2021.

Change in the Group's ownership interest in associates

The Group's interests in Fulfil Holdings Limited were disposed of in 2022.

Significant restrictions

There is no significant restriction on the ability of associates or joint ventures to transfer funds to the Group in the form of cash or dividends, or to repay loans or advances made by the Group.

24 Intangible assets and goodwill

						2022
	Software externally purchased	**Software internally generated**	**Software under construction**	**Goodwill**[1]	**Other**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Cost						
At 1 January	**238**	**1,472**	**167**	**120**	**40**	**2,037**
Additions	**11**	**71**	**92**	**—**	**—**	**174**
Transfers in/(out)	**—**	**102**	**(102)**	**—**	**—**	**—**
Amounts written-off[2]	**(6)**	**(4)**	**(8)**	**—**	**—**	**(18)**
Exchange translation adjustments	**—**	**(3)**	**—**	**—**	**—**	**(3)**
At 31 December	**243**	**1,638**	**149**	**120**	**40**	**2,190**
Amortisation/impairment						
At 1 January	**219**	**804**	**—**	**—**	**18**	**1,041**
Amortisation for the year	**8**	**204**	**—**	**—**	**6**	**218**
Impairment for the year[3]	**—**	**2**	**8**	**—**	**—**	**10**
Amounts written-off[2]	**(6)**	**(4)**	**(8)**	**—**	**—**	**(18)**
Exchange translation adjustments	**—**	**(1)**	**—**	**—**	**—**	**(1)**
At 31 December	**221**	**1,005**	**—**	**—**	**24**	**1,250**
Carrying value at 31 December	**22**	**633**	**149**	**120**	**16**	**940**

						2021
	Software externally purchased	Software internally generated	Software under construction	Goodwill[1]	Other	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Cost						
At 1 January	292	1,334	172	70	40	1,908
Additions	10	99	95	—	—	204
Acquisition of subsidiary	—	1	—	50	—	51
Transfers in/(out)	—	99	(99)	—	—	—
Amounts written-off[2]	(64)	(65)	(1)	—	—	(130)
Exchange translation adjustments	—	4	—	—	—	4
At 31 December	238	1,472	167	120	40	2,037
Amortisation/impairment						
At 1 January	274	685	—	—	12	971
Amortisation for the year	9	182	—	—	6	197
Impairment for the year[3]	—	—	1	—	—	1
Amounts written-off[2]	(64)	(65)	(1)	—	—	(130)
Exchange translation adjustments	—	2	—	—	—	2
At 31 December	219	804	—	—	18	1,041
Carrying value at 31 December	19	668	167	120	22	996

(1) Relates to Goodwill recognised on the acquisition of subsidiaries.
(2) Relates to assets which are no longer in use with a Nil carrying value.
(3) Included in ‘Impairment and amortisation of intangible assets’ in the consolidated income statement.

Future capital expenditure in relation to both intangible assets and property, plant and equipment is set out in note 25.

25 Property, plant and equipment

								2022
	Owned assets					Leased assets		
	Property					Right-of-use assets		
	Freehold	Long leasehold	Leasehold under 50 years	Equipment	Assets under construction	Property	Other	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Cost								
At 1 January	174	41	124	377	5	479	3	1,203
Transfers in/(out)	1	—	1	1	(3)	—	—	—
Additions	7	—	1	17	7	7	1	40
Net remeasurements	—	—	—	—	—	(11)	—	(11)
Transfers (to)/from held for sale	(12)	(3)	(1)	(1)	—	—	—	(17)
Early termination/maturities	—	—	—	—	—	(97)	—	(97)
Amounts written off[1]	(1)	—	(18)	(15)	—	—	—	(34)
Exchange translation adjustments	(1)	—	—	(1)	—	(1)	—	(3)
At 31 December	168	38	107	378	9	377	4	1,081
Depreciation/impairment								
At 1 January	50	13	53	290	—	164	2	572
Depreciation charge for the year	5	1	10	23	—	37	1	77
Impairment charge for the year[2]	1	—	9	2	—	24	—	36
Early termination/maturities	—	—	—	—	—	(97)	—	(97)
Amounts written off[1]	(1)	—	(18)	(15)	—	—	—	(34)
Transfers (to)/from held for sale	(5)	(1)	(1)	(1)	—	—	—	(8)
Exchange translation adjustments	—	—	—	(1)	—	—	—	(1)
At 31 December	50	13	53	298	—	128	3	545
Carrying value at 31 December	118	25	54	80	9	249	1	536

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

25 Property, plant and equipment *continued*

								2021
	Owned assets					Leased assets		
	Property					Right-of-use assets		
	Freehold	Long leasehold	Leasehold under 50 years	Equipment	Assets under construction	Property	Other	Total
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Cost								
At 1 January	172	43	128	397	8	491	3	1,242
Transfers in/(out)	2	—	2	1	(5)	—	—	—
Acquisition of subsidiary	—	—	1	2	—	5	—	8
Additions	4	—	1	23	3	5	1	37
Net re-measurements	—	—	—	—	—	(11)	—	(11)
Transfers (to)/from held for sale	(4)	—	—	—	—	—	—	(4)
Amounts written off(1)	(1)	(2)	(9)	(47)	(1)	(14)	(1)	(75)
Exchange translation adjustments	1	—	1	1	—	3	—	6
At 31 December	174	41	124	377	5	479	3	1,203
Depreciation/impairment								
At 1 January	45	14	46	308	—	103	1	517
Depreciation charge for the year	5	1	11	24	—	44	2	87
Impairment charge for the year(2)	2	—	5	4	1	30	—	42
Amounts written off(1)	(1)	(2)	(9)	(47)	(1)	(14)	(1)	(75)
Transfers (to)/from held for sale	(1)	—	—	—	—	—	—	(1)
Exchange translation adjustments	—	—	—	1	—	1	—	2
At 31 December	50	13	53	290	—	164	2	572
Carrying value at 31 December	124	28	71	87	5	315	1	631

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

The carrying value of property occupied by the Group for its own activities was € 189 million (2021: € 223 million) in relation to owned assets and € 249 million in relation to right-of-use assets (2021: € 305 million), excluding those held as disposal groups and non-current assets held for sale. Property leased to others by the Group had a carrying value of € 8 million (2021: Nil).

Future capital expenditure

The table below shows future capital expenditure in relation to both property, plant and equipment and intangible assets (excluding right-of-use assets).

	2022	2021
	€ m	€ m
Estimated outstanding commitments for capital expenditure not provided for in the financial statements	**6**	1
Capital expenditure authorised but not yet contracted for	**22**	18

25 Property, plant and equipment *continued*

Leased assets

Property

The Group leases property for its offices and retail branch outlets. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Most of these leases carry statutory renewal rights, or include an option to renew the lease for an additional period after the end of the contract term. Where the Group is likely to exercise these options, this has been taken into account in determining the lease liability and the right-of-use asset.

Other

The Group leases motor vehicles, ATM offsite locations and IT equipment.

Lease liabilities

A maturity analysis of lease liabilities is shown in note 32.

Amounts recognised in income statement	2022 € m	2021 € m
Depreciation expense on right-of-use assets	38	46
Interest on lease liabilities (note 5)	11	12
Expense relating to short term leases	—	1

Amounts recognised in statement of cash flows	2022 € m	2021 € m
Total cash outflow for leases during the year(1)	55	55

(1) Includes amounts reported as interest expense on lease liabilities of € 11 million (2021: € 12 million) and amounts reported as principal repayments on lease liabilities of € 44 million (2021: € 43 million). Refer to note 32.

26 Other assets

	2022 € m	2021 € m
Proceeds due from disposal of loan portfolio(1)	41	302
Stockbroking client debtors	17	35
Items in transit	84	97
Items in course of collection	51	44
Other(2)	103	95
Total	296	573

(1) ECL – Nil.
(2) Includes sundry debtors € 41 million (2021: € 33 million).

27 Deferred taxation

	2022 € m	2021 € m
Deferred tax assets:		
Unutilised tax losses	**2,742**	2,840
Cash flow hedges	**311**	—
Transition to IFRS 9	**4**	15
Assets used in the business	**15**	14
Retirement benefits	**6**	13
Assets leased to customers	**15**	15
Other	**3**	7
Total gross deferred tax assets	**3,096**	2,904
Deferred tax liabilities:		
Cash flow hedges	**(43)**	(20)
Retirement benefits	**(1)**	(15)
Assets used in the business	**(22)**	(22)
Investment securities	**(5)**	(26)
Acquisition of subsidiary	**(2)**	(3)
Transition to IFRS 9	**—**	(1)
Other	**(21)**	(36)
Total gross deferred tax liabilities	**(94)**	(123)
Net deferred tax assets	**3,002**	2,781
Represented on the statement of financial position:		
Deferred tax assets	**3,032**	2,834
Deferred tax liabilities	**(30)**	(53)
	3,002	2,781

For each of the years ended 31 December 2022 and 2021, full provision has been made for capital allowances and other temporary differences.

Analysis of movements in deferred taxation	2022 € m	2021 € m
At 1 January	**2,781**	2,667
Exchange translation and other adjustments	**(8)**	4
Deferred tax through other comprehensive income *(note 14)*	**311**	76
Income statement *(note 14)*	**(82)**	34
At 31 December	**3,002**	2,781

At 31 December 2022, recognised deferred tax assets on tax losses and other temporary differences, net of deferred tax liabilities, totalled € 3,002 million (2021: €2,781 million).

With regard to the Group’s deferred tax asset for unutilised losses, during 2022 the Group recognised a charge to the income statement of € 76 million, a charge to other comprehensive income of € 10 million and exchange translations and other adjustments of € 12 million. As a result, the amount of recognised deferred tax assets arising from unutilised tax losses amounted to € 2,742 million (2021: € 2,840 million) of which € 2,546 million (2021: € 2,645 million) relates to Irish tax losses and € 196 million (2021: € 195 million) relates to UK tax losses (of which € 187 million (2021: € 195 million) relates to the Group’s principal UK subsidiary).

Additional commentary on the basis of recognition of deferred tax assets on unused tax losses are included in note 2.

27 Deferred taxation *continued*

Temporary differences recognised in other comprehensive income consist of deferred tax on financial assets at FVOCI, cash flow hedges and actuarial gains/losses on retirement benefit schemes. Temporary differences recognised in the income statement consist of provisions for expected credit losses on financial instruments, amortised income, assets leased to customers, and assets used in the course of the business.

Net deferred tax assets at 31 December 2022 of € 2,873 million (2021: € 2,738 million) are expected to be recovered after more than 12 months.

For the Group's principal UK subsidiary, the Group has concluded that the recognition of deferred tax assets be limited to the amount projected to be realised within a time period of 15 years. This is the timescale within which the Group believes that it can assess the likelihood of its profits arising as being more likely than not. The deferred tax asset for unutilised tax losses in the principal UK subsidiary amounts to £ 166 million at 31 December 2022 (2021: £ 164 million). The carrying value of the UK deferred tax asset for unutilised losses has been based on legislation enacted in 2021 to increase the UK Corporation Tax rate from 19% to 25% from 1 April 2023.

For certain other subsidiaries and branches, the Group has concluded that it is more likely than not that there will be insufficient profits to support full recognition of deferred tax assets. The Group has not recognised deferred tax assets in respect of: Irish tax on unused tax losses at 31 December 2022 of € 161 million (2021: € 161 million); overseas tax (UK and USA) on unused tax losses of € 2,996 million (2021: € 3,142 million); and foreign tax credits for Irish tax purposes of € 13 million (2021: € 12 million). Of these tax losses totalling € 3,157 million for which no deferred tax is recognised: € 7 million expires in 2032; € 41 million in 2033; € 27 million in 2034; and € 5 million in 2035.

The Irish Government agreed to the statement on new international tax rules issued in October 2021 by the OECD/G20 Inclusive Framework. This included the proposal for a new global minimum effective tax rate of 15% on multinationals from 2023. In December 2021, the OECD published "model rules" for the minimum effective rate and in December 2022 the EU adopted a directive setting out how these "model rules" should be applied within the EU from 31 December 2023. During 2023 the Group will review the directive, any legislation introduced in Ireland, related guidance, and any associated amendments to IFRS. It is not possible at this time to estimate the impact, if any, on the Group's deferred tax assets and liabilities.

The aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates for which deferred tax liabilities have not been recognised amounted to Nil (2021: Nil).

Deferred tax recognised directly in equity amounted to Nil (2021: Nil).

27 Deferred taxation *continued*

Analysis of income tax relating to other comprehensive income

					2022
	Gross	**Tax**	**Net of tax**	**Non-controlling interests net of tax**	**Net amount attributable to equity holders of the parent**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**
Profit for the year	**880**	**(115)**	**765**	**(2)**	**767**
Net change in foreign currency translation reserves	**(61)**	**(10)**	**(71)**	**—**	**(71)**
Net change in cash flow hedging reserves	**(1,907)**	**288**	**(1,619)**	**—**	**(1,619)**
Net change in fair value of investment securities at FVOCI	**(209)**	**21**	**(188)**	**—**	**(188)**
Remeasurement of defined benefit asset/(liability)	**(20)**	**12**	**(8)**	**—**	**(8)**
Total comprehensive income for the year	**(1,317)**	**196**	**(1,121)**	**(2)**	**(1,119)**
Attributable to:					
Equity holders of the parent	**(1,315)**	**196**	**(1,119)**	**—**	**(1,119)**
Non-controlling interests	**(2)**	**—**	**(2)**	**(2)**	**—**

					2021
	Gross	Tax	Net of tax	Non-controlling interests net of tax	Net amount attributable to equity holders of the parent
	€ m	€ m	€ m	€ m	€ m
Profit for the year	629	16	645	(2)	647
Net change in foreign currency translation reserves	74	13	87	—	87
Net change in cash flow hedging reserves	(448)	57	(391)	—	(391)
Net change in fair value of investment securities at FVOCI	(62)	8	(54)	—	(54)
Remeasurement of defined benefit asset/(liability)	19	(2)	17	—	17
Total comprehensive income for the year	212	92	304	(2)	306
Attributable to:					
Equity holders of the parent	214	92	306	—	306
Non-controlling interests	(2)	—	(2)	(2)	—

28 Retirement benefits

The Group operates a number of defined contribution and defined benefit schemes for employees. All defined benefit schemes are closed to future accrual.

Defined contribution schemes

From 1 January 2014, all Group staff accrue future pension benefits on a defined contribution ("DC") basis with a standard employer contribution of 10%. An additional matched employer contribution, subject to limits based on age bands of 2%, 5% or 8% is also paid into the schemes.

The amount included in operating expenses in respect of DC schemes is € 80 million (2021: € 79 million) (note 11).

Defined benefit schemes

All defined benefit schemes operated by the Group closed to future accrual no later than 31 December 2013 and staff transferred to defined contribution schemes for future pension benefits. The most significant defined benefit schemes operated by the Group are the AIB Group Irish Pension Scheme ('the Irish scheme') and the AIB Group UK Pension Scheme ('the UK scheme').

Retirement benefits for the defined benefit schemes are calculated by reference to service and Final Pensionable Salary at 31 December 2013. The Final Pensionable Salary used in the calculation of this benefit for staff is based on their average pensionable salary in the period between 30 June 2009 and 31 December 2013. This calculation of benefit for each staff member will revalue between 1 January 2014 and retirement date in line with the statutory requirement to revalue deferred benefits. There is no link to any future changes in salaries.

In the main Irish Scheme, there are 15,360 members comprising 4,351 pensioners and 11,009 deferred members at 31 December 2022. 7,550 members have benefits accrued from 2007 to 2013 under a hybrid arrangement. In addition, there are 953 members comprising 140 pensioners and 813 deferred members at 31 December 2022 in EBS Defined Benefit Schemes.

Responsibilities for governance

The Trustees of each Group pension scheme are ultimately responsible for the governance of the schemes.

Risks

Details of the pension risk to which the Group is exposed are set out in the Risk section on pages 200 to 201 of this report.

Valuations

Independent actuarial valuations for the AIB Group Irish Pension Scheme ('Irish scheme') and the AIB Group UK Pension Scheme ('UK scheme') are carried out on a triennial basis by the Schemes' actuary, Mercer. The most recent valuation of the Irish scheme was carried out at 30 June 2021 and reported the scheme to be in surplus. The next actuarial valuation of the Irish scheme will be 30 June 2024. No deficit funding is required at this time as the Irish scheme continues to meet the minimum funding standard. The most recent valuation of the UK scheme was carried out at 31 December 2020. The next actuarial valuation of the UK scheme will be 31 December 2023.

De-risking of the UK scheme

The Group and the Trustee undertook a substantial de-risking of the UK scheme in 2019. A transaction entered into involved the acquisition of two insurance contracts from Legal and General Assurance Society ("LGAS") using the majority of the assets of the UK scheme. These insurance contracts are: a pensioner buy-in contract in respect of the pensioner members and an assured payment policy ("APP") in respect of deferred members. The ultimate obligation to pay the members benefits still remains with the scheme.

The pensioner buy-in contract removes financial and demographic risk attaching to the current UK pensioners. This pensioner buy-in contract is effectively a qualifying insurance contract, and exactly matches the amount and timing of the benefits covered. Accordingly, the fair value of the pensioner buy-in contract is set equal to the corresponding value of the liabilities, using the same assumptions.

The APP significantly reduces the inflation and interest rate risk attaching to UK deferred members although demographic risks remain. The APP can (at the UK Trustee's election) be partially surrendered on an annual basis for the purpose of wholly or partially funding buy-in of further tranches of deferred members over a defined period of time. This will remove exposure to the risks not covered by the APP over time. The fair value of the APP is measured as the estimated cost of purchasing the contract on the open market. Since the initial de-risking transaction in 2019, additional members (including deferred and subsequent retirees) have been added to the buy-in policy, with a partial surrender of a portion of the APP to fund the cost.

The Group agreed with the Scheme Trustee a revised funding arrangement for the UK scheme to support the purchase of the pensioner buy-in contract and the APP. Under this funding arrangement, the Group expects to make payments of £ 18.5 million in 2023 with a final balancing payment, based on latest estimates from LGAS of c. £ 27 million. This payment and any related costs are subject to change prior to finalisation.

28 Retirement benefits *continued*

Contributions

Total contributions to all defined benefit pension schemes operated by the Group in 2022 amounted to € 24 million (2021: € 22 million). There were no contributions made to the Irish Scheme in 2022 (2021: Nil). Contributions of £ 18.5 million were made to the UK scheme (2021: £ 18.5 million) as part of the revised funding arrangement which was implemented in December 2019.

Total contributions to all defined benefit pension schemes operated by the Group for the year to 31 December 2023 are estimated to be € 22 million.

Financial assumptions

The following table summarises the financial assumptions adopted in the preparation of these financial statements in respect of the main schemes at 31 December 2022 and 2021. The assumptions have been set based upon the advice of the Group's actuary.

Financial assumptions	**2022 %**	2021 %
Irish scheme		
Rate of increase of pensions in payment(1)	**2.60**	0.65
Discount rate	**4.20**	1.38
Inflation assumptions(2)	**2.85**	2.00
UK scheme		
Rate of increase of pensions in payment	**3.10**	3.30
Discount rate	**5.00**	1.80
Inflation assumptions (RPI)	**3.10**	3.30

(1) In 2020, the Group revised the basis of the long term rate of increase of pensions in payment assumption for the Irish scheme as set out below.
(2) The inflation assumption applies to the revaluation of deferred members' benefits up to their retirement date.

28 Retirement benefits *continued*

Funding of increases in pensions in payment for the Irish defined benefit schemes

The Board previously determined that the funding of discretionary increases to pensions in payment is a decision to be made by the Board each year. A process, taking account of all relevant interests and factors was implemented by the Board. These interests and factors include: the advice of the Actuary; the interests of the members of the scheme; the interests of the employees; the Group's financial circumstances and ability to pay; the views of the Trustees; the Group's commercial interests and any competing obligations to the State. As a result of this process, the Group's judgement is that a constructive obligation to fund future pension in payment increases does not exist.

The Group decided in February 2022 and March 2023 that the funding of discretionary increases was not appropriate in either year in relation to the Irish scheme.

Rate of increase of pensions in payment – Irish scheme

Notwithstanding the decisions by the Board not to fund discretionary increases, the Trustee of the Irish scheme awarded an increase of 4.5% in 2022. Taking this decision by the Trustee into consideration and the financial position of the scheme, the long term assumption for future discretionary increases in pensions in payment continues to reflect an assessment of the Trustee's ability to grant further discretionary increases without funding from the Group, capped at a long-term inflation assumption. Having taken actuarial advice the Group has adopted a rate of 2.6%, being a long term inflation assumption, and which has increased the scheme liabilities by € 886 million at 31 December 2022 (31 December 2021: 0.65%, € 350 million respectively).

Mortality assumptions

The life expectancies underlying the value of the scheme liabilities for the Irish and UK schemes at 31 December 2022 and 2021 are shown in the following table.

	Life expectancy – years			
	Irish scheme		**UK scheme**	
	2022	2021	**2022**	2021
Retiring today age 63				
Males	**25.0**	24.9	**25.0**	25.0
Females	**26.8**	26.7	**26.8**	26.8
Retiring in 10 years at age 63				
Males	**25.6**	25.5	**25.3**	25.4
Females	**27.6**	27.5	**27.8**	27.8

The mortality assumptions for the Irish and UK schemes were updated in 2021 to reflect emerging market experience. The table shows that a member of the Irish scheme retiring at age 63 on 31 December 2022 is assumed to live on average for 25.0 years for a male (25.0 years for the UK scheme) and 26.8 years for a female (26.8 years for the UK scheme)**.**There will be variation between members but these assumptions are expected to be appropriate for all members. The table also shows the life expectancy for members aged 53 on 31 December 2022 who will retire in ten years. Younger members are expected to live longer in retirement than those retiring now, reflecting a decrease in mortality rates in future years due to advances in medical science and improvements in standards of living.

28 Retirement benefits *continued*

Movement in defined benefit obligation and scheme assets

The following table sets out the movement in the defined benefit obligation and scheme assets during 2022 and 2021.

				2022				2021
	Defined benefit obligation	**Fair value of scheme assets**	**Asset ceiling/ minimum funding(1)**	**Net defined benefit (liabilities) assets**	Defined benefit obligation	Fair value of scheme assets	Asset ceiling/ minimum funding(1)	Net defined benefit (liabilities) assets
	€ m	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m	€ m
At 1 January	**(6,241)**	**6,976**	**(735)**	**—**	(6,226)	6,627	(440)	(39)
Included in profit or loss								
Past service cost	**(1)**	**—**	**—**	**(1)**	—	—	—	—
Interest (cost)/income	**(90)**	**101**	**(10)**	**1**	(72)	77	(5)	—
Administration costs	**—**	**(4)**	**—**	**(4)**	—	(3)	—	(3)
	(91)	**97**	**(10)**	**(4)**	(72)	74	(5)	(3)
Included in other comprehensive income								
Remeasurements (loss)/gain:								
– Actuarial gain/(loss) arising from:								
– Experience adjustments	**(217)**	**—**	**—**	**(217)**	109	—	—	109
– Changes in demographic assumptions	**18**	**—**	**—**	**18**	95	—	—	95
– Changes in financial assumptions	**1,390**	**—**	**—**	**1,390**	(288)	—	—	(288)
– Return on scheme assets excluding interest income	**—**	**(1,349)**	**—**	**(1,349)**	—	393	—	393
– Asset ceiling/minimum funding adjustments	**—**	**—**	**138**	**138**	—	—	(290)	(290)
				(20) (2)				19 (2)
Translation adjustment on non-euro schemes	**42**	**(45)**	**—**	**(3)**	(82)	83	—	1
	1,233	**(1,394)**	**138**	**(23)**	(166)	476	(290)	20
Other								
Contributions by employer	**—**	**24**	**—**	**24**	—	22	—	22
Benefits paid	**249**	**(249)**	**—**	**—**	223	(223)	—	—
	249	**(225)**	**—**	**24**	223	(201)	—	22
At 31 December	**(4,850)**	**5,454**	**(607)**	**(3)**	(6,241)	6,976	(735)	—

	31 December 2022 € m	31 December 2021 € m
Recognised on the statement of financial position as:		
Retirement benefit assets		
UK scheme	**3**	44
Other schemes	**10**	10
Total retirement benefit assets	**13**	54
Retirement benefit liabilities		
Irish scheme	**—**	—
EBS scheme	**—**	(31)
Other schemes	**(16)**	(23)
Total retirement benefit liabilities	**(16)**	(54)
Net pension deficit	**(3)**	—

(1) In recognising the net surplus or deficit on a pension scheme, the funded status of each scheme is adjusted to reflect any minimum funding requirement and any ceiling on the amount that the sponsor has a right to recover from a scheme.

(2) After tax € 8 million (2021: € 17 million).

28 Retirement benefits *continued*

Scheme assets

The following table sets out an analysis of the scheme assets:

	2022 **€ m**	2021 € m
Cash and cash equivalents	**146**	138
Equity instruments		
Quoted equity instruments:		
Basic materials	**61**	71
Consumer goods	**104**	114
Consumer services	**111**	168
Energy	**105**	91
Financials	**200**	235
Healthcare	**174**	189
Industrials	**130**	155
Technology	**207**	305
Telecoms	**79**	121
Utilities	**46**	49
Total quoted equity instruments	**1,217**	1,498
Unquoted equity instruments	**—**	—
Total equity instruments	**1,217**	1,498
Debt instruments		
Quoted debt instruments:		
Corporate bonds	**682**	874
Government bonds	**1,001**	1,557
Total quoted debt instruments	**1,683**	2,431
Real estate(1)(2)	**344**	295
Derivatives	**17**	7
Investment funds		
Quoted investment funds:		
Alternatives	**16**	23
Bonds	**—**	284
Cash	**3**	10
Equity	**190**	266
Fixed interest	**110**	125
Forestry	**46**	42
Liability Driven Investment	**810**	470
Multi-asset	**12**	16
Property	**—**	—
Total quoted investment funds	**1,187**	1,236
Total investment funds	**1,187**	1,236
Mortgage backed securities(2)	**177**	214
Insurance contracts(3)	**683**	1,157
Fair value of scheme assets at 31 December	**5,454**	6,976

(1) Located in Europe.
(2) A quoted market price in an active market is not available.
(3) Further details on these contracts are set out in the section "De-risking of the UK Scheme" within this note.

28 Retirement benefits *continued*

Sensitivity analysis for principal assumptions used to measure scheme liabilities

There are inherent uncertainties surrounding the financial assumptions adopted in calculating the liabilities of the pension schemes. Set out in the table below is a sensitivity analysis of the key assumptions for the Irish scheme and the UK scheme at 31 December 2022. A sensitivity analysis for the rate of increase of pensions in payment is not provided, as this rate is dependent on the surplus available to the Trustee to distribute and the advice of the actuary. See page 300.

Note that the changes in assumptions are independent of each other i.e. the effect of the reflected change in the discount rate assumes that there has been no change in the rate of mortality assumption and vice versa.

	Irish scheme defined benefit obligation		UK scheme defined benefit obligation	
	Increase	**Decrease**	**Increase**	**Decrease**
	€ m	**€ m**	**€ m**	**€ m**
Discount rate (0.25% movement)	**(102)**	**105**	**(22)**	**23**
Inflation (0.25% movement)	**43**	**(41)**	**22**	**(21)**
Future mortality (1 year change in life expectancy)	**100**	**(100)**	**22**	**(22)**

Maturity of the defined benefit obligation

The weighted average duration of the Irish scheme at 31 December 2022 is 14 years and of the UK scheme at 31 December 2022 is 13 years.

Asset-liability matching strategies

The Irish scheme continued to de-risk in 2022, with further allocations to liability matching assets. As part of a strategy to increase the scheme’s level of interest rate and inflation hedging, the allocation to the Liability Driven Investment (“LDI”) portfolio has increased further. The LDI fund is comprised of a mixture of nominal bonds, inflation linked bonds and interest rate and inflation derivatives. The scheme’s exposure to equities was reduced during 2022 due to a combination of asset sales and market movements.

As part of the investment strategy of the UK scheme, it was significantly de-risked in 2019 when the Scheme entered into two insurance contracts with LGAS as described above (a pensioner buy-in contract in respect of the pensioner members and an APP contract in respect of the deferred members).

Other long term employee benefits

Other long term employee benefits include additional benefits which the Group provides to employees who suffer prolonged periods of sickness, subject to the qualifying terms of the insurer. It provides for the partial replacement of income in event of illness or injury resulting in the employee’s long term absence from work.

Furthermore, on the death of an employee before their normal retirement date, the Group has in place insurance policies to cover the additional financial costs to the Group under the terms of the schemes.

In 2022, the Group contributed € 9 million (2021: € 9 million) towards insuring these benefits which are included in 'Operating expenses' (note 11).

29 Deposits by central banks and banks

	2022 € m	2021 € m
Central Banks		
Eurosystem refinancing operations	—	10,000
Borrowings – secured	282	298
– unsecured	—	—
	282	10,298
Banks		
Other borrowings – unsecured	232	84
	514	10,382

Eurosystem refinancing operations are credit facilities from the Eurosystem secured by a fixed charge over securities and relates to TLTRO III. The Group participated in the TLTRO programme for € 4 billion in September 2020 and a further € 6 billion in June 2021 which was repaid in December 2022.

Deposits by central banks and banks include cash collateral at 31 December 2022 of € 210 million (2021: € 51 million) received from derivative counterparties in relation to net derivative positions and from repurchase agreement counterparties.

Financial assets pledged

Financial assets pledged for secured borrowings and providing access to future funding facilities with central banks and banks are detailed in the following table:

	2022			2021		
	Central banks € m	Banks € m	Total € m	Central banks € m	Banks € m	Total € m
Total carrying value of financial assets pledged	8,749	15	8,764	11,011	16	11,027
Of which:						
Government securities	540	15	555	5,751	16	5,767
Other securities[1]	8,209	—	8,209	5,260	—	5,260

(1) The Group has issued covered bonds secured on pools of residential mortgages. Securities, other than those issued to external investors, have been pledged as collateral in addition to other securities held by the Group.

30 Customer accounts

	2022 € m	2021 € m
Current accounts	64,402	57,895
Demand deposits	32,595	29,762
Time deposits	5,335	5,183
Other non-controlling interests[1]	27	26
	102,359	92,866
Of which:		
Non-interest bearing current accounts	59,266	41,169
Interest bearing deposits, current accounts and short term borrowings	43,093	51,697
	102,359	92,866
Amounts include:		
Due to associated undertakings	271	280

(1) Relates to long term loans from minority shareholders in Augmentum Limited, see note 41.

Customer accounts include cash collateral of € 71 million (2021: € 59 million) received from derivative counterparties in relation to net derivative positions.

At 31 December 2022, the Group's five largest customer deposits amounted to 1% (2021: 1%) of total customer accounts.

31 Debt securities in issue

	2022 € m	2021 € m
Issued by AIB Group plc		
Euro Medium Term Note Programme	**4,451**	2,498
Global Medium Term Note Programme	**1,728**	1,594
	6,179	4,092
Issued by subsidiaries		
Euro Medium Term Note Programme	**—**	—
Bonds and other medium term notes	**1,024**	1,789
	1,024	1,789
	7,203	5,881

Analysis of movements in debt securities in issue

	2022 € m	2021 € m
At 1 January	**5,881**	5,450
Issued during the year	**3,231**	750
Repurchased	**(847)**	—
Matured	**(750)**	(500)
Other(1)	**(312)**	181
At 31 December	**7,203**	5,881

(1) Includes a negative fair value hedge adjustment of € 404 million (2021: positive € 62 million) and exchange translation adjustments of € 92 million (2021: € 119 million).

On 4 April 2022, AIB Group plc issued € 1 billion Senior Unsecured 2.250% Notes maturing on 4 April 2028. The notes bear interest on the outstanding nominal amount, payable annually in arrears on 4 April each year, commencing on 4 April 2023 up to and including the maturity date.

On 4 July 2022, AIB Group plc issued € 750 million Senior Unsecured 3.625% Notes maturing on 4 July 2026. The notes bear interest on the outstanding nominal amount, payable annually in arrears on 4 July each year, commencing on 4 July 2023 up to and including the maturity date.

On 14 October 2022, AIB Group plc issued US$ 750 million Senior Unsecured 7.583% Notes maturing on 14 October 2026. The notes bear interest on the outstanding nominal amount, payable semi-annually in arrears on 14 April and 14 October each year, commencing on 14 April 2023 up to and including the maturity date.

On 16 November 2022, AIB Group plc issued € 750 million Senior Unsecured 5.75% Notes maturing on 16 February 2029. The notes bear interest on the outstanding nominal amount, payable annually in arrears on 16 February each year, commencing on 16 February 2023 up to and including the maturity date.

Following a tender offer in March 2022 to holders of € 500 million Senior Unsecured 1.50% Notes maturing in 2023, notes with a nominal value of € 247 million were repurchased leaving a residual of € 253 million.

Following a further tender offer in October 2022 to holders of US$ 750 million Senior Unsecured 4.75% Notes maturing in 2023, notes with a nominal value of US$ 614 million were repurchased leaving a residual of US$ 136 million.

All the issuances by AIB Group plc are initially eligible to meet the Group's MREL requirements. These instruments are redeemable for tax or for regulatory reasons, subject to the permission of the relevant regulation authority.

32 Lease liabilities

	2022 € m	2021 € m
At 31 December	**257**	346
Maturity analysis – contractual undiscounted cash flows:		
Not later than one year	**39**	52
Later than one year and not later than five years	**125**	169
Later than five years	**154**	185
Total undiscounted lease liabilities at end of year	**318**	406

Analysis of movements in lease liabilities	2022 € m	2021 € m
At 1 January	**346**	382
Lease payments(1)	**(55)**	(55)
Interest expense(1)	**11**	12
Additions	**8**	5
Acquisition of subsidiary	**—**	5
Early terminations	**(40)**	(1)
Net remeasurements	**(12)**	(3)
Foreign exchange translation adjustments	**(1)**	1
At 31 December	**257**	346

(1) Repayment of principal portion of the lease liabilities amounted to € 44 million (2021: € 43 million), i.e. lease payments net of interest expense.

33 Other liabilities

	2022 € m	2021 € m
Notes in circulation	**40**	96
Items in transit	**105**	71
Creditors	**37**	32
Stockbroking client creditors	**13**	35
Bank drafts	**298**	421
Items in course of collection	**261**	180
Other(1)	**352**	364
	1,106	1,199

(1) Includes invoice discounting credit balances on customer accounts € 55 million (2021: € 103 million).

34 Provisions for liabilities and commitments

The Group has presented legal claims, Belfry related provisions, FSPO decision, restructuring costs and other provisions as separate classes of provisions in 2022. Onerous contracts and ROU commitments, which were previously presented separately, are now included within other provisions. The related comparatives for 2021 have been restated.

						2022	
	Legal claims	Belfry related provisions	FSPO decision	Restructuring costs	Other provisions	Total	
	€ m	€ m	€ m	€ m	€ m	€ m	
Provisions (excluding loan commitments and financial guarantee contracts)							
At 1 January 2022	31	75	79	27	210	422	
Charged to income statement	6	94	—	4	36	140	(1)
Released to income statement	(3)	—	(16)	(4)	(30)	(53)	(1)
Provisions utilised	(5)	(90)	(3)	(18)	(130)	(246)	
Exchange translation adjustments	—	—	—	(1)	—	(1)	
At 31 December 2022	29	79	60	8	86	262	(2)
Loan commitments and financial guarantees contracts							
At 1 January 2022						79	
Net charge to income statement						—	(3)
Disposals						(1)	
Exchange translation adjustments						—	
At 31 December 2022						78	
Total provisions for liabilities and commitments						340	

						2021	
	Legal claims	Belfry related provisions	FSPO decision	Restructuring costs	Other provisions	Total	
	€ m	€ m	€ m	€ m	€ m	€ m	
Provisions (excluding loan commitments and financial guarantee contracts)							
At 1 January 2021	34	—	80	29	170	313	
Charged to income statement	30	75	—	26	65	196	(1)
Released to income statement	(4)	—	(1)	(1)	(9)	(15)	(1)
Dilapidation provisions	—	—	—	—	2	2	
Provisions utilised	(29)	—	—	(28)	(19)	(76)	
Exchange translation adjustments	—	—	—	1	1	2	
At 31 December 2021	31	75	79	27	210	422	(2)
Loan commitments and financial guarantees contracts							
At 1 January 2021						83	
Net (writeback) to income statement						(6)	(3)
Exchange translation adjustments						2	
At 31 December 2021						79	
Total provisions for liabilities and commitments						501	

(1) Included in note 11.
(2) Amounts expected to be settled within one year are € 190 million (31 December 2021: € 368 million).
(3) Included in note 12.

The ECL allowance on loan commitments and financial guarantee contracts are presented as a provision in the balance sheet (i.e. as a liability under IFRS 9 *Financial Instruments*) and separate from the ECL allowance on financial assets. For details of the internal credit ratings and geographic concentration of contingent liabilities and commitments, see pages 154 and 184 in the 'Risk management' section of this report.

34 Provisions for liabilities and commitments *continued*

(a) Belfry related provisions

During the period 2002 to 2006 the Group sold a series of investment property funds, known as Belfry, which subsequently incurred losses to c. 2,500 individual investors (c. £ 214 million invested). The Group settled claims from certain of those investors in 2021 which resulted in a € 25 million charge including amounts for legal and settlement costs (reported in Legal claims in 2021). Following this, the Group instigated a programme to review the suitability of advice outcomes for individual investors to determine if redress may be due in certain instances. Based on an initial assessment, a provision was also recorded for € 75 million in 2021.

Following the approval by the Board during 2022 of the customer treatment methodology and the close out of the individual case assessments, the provision for the cost of redress was reassessed and increased by € 82 million. Payments to impacted customers are ongoing with the Group making payments of € 85 million in 2022.

Furthermore associated costs, required to conclude the redress programme, of € 12 million were separately provided for of which € 5 million was utilised during the period.

While the provision of € 79 million at 31 December 2022 represents the Group's best estimate, the final cost is subject to uncertainty as individual investors will have the right to appeal the outcome of their case assessment to an independent appeals panel.

(b) FSPO decision

The provision at 31 December 2022 for customer redress and compensation and other related costs amounted to € 60 million (31 December 2021: € 79 million) in respect of certain mortgage customers – the '06-09 Ts & Cs(1) who never had a tracker' cohort.

In 2020, following a Financial Services and Pensions Ombudsman ("FSPO") decision in relation to a complaint by a customer from the '06-09 Ts & Cs who never had a tracker' cohort, which found that the Bank had breached the terms of the customer's mortgage loan contract and directed it to remedy the matter in what the FSPO believed was a fair and proportionate manner, the Group decided to accept the decision in full.

Furthermore, the Group decided to apply the remedy to all other customers within this cohort, and payments to customers on that basis have effectively concluded.

The Group has continued to engage with stakeholders over the intervening period and a number of related issues continue to exist that have yet to be resolved, including tax liabilities arising that the Group will be required to discharge on behalf of impacted customers. Following utilisations of € 3 million in the year the level of provision required for these other costs has been reassessed at € 60 million at 31 December 2022.

These issues remain subject to uncertainty with a range of outcomes possible with the final outcome being higher or lower depending on finalisation of such issues.

(1) Terms and conditions

(c) Restructuring costs

This mainly relates to the UK restructuring with other amounts relating to the property transformation strategy.

UK restructuring provision

A provision for restructuring costs in relation to the implementation of the revised UK strategy of € 19 million was held at 31 December 2021. Following utilisations of € 16 million, and a charge of € 3 million, the closing provision at 31 December 2022 was € 6 million.

(d) Other provisions

Other provisions includes provisions for the Tracker Mortgage Examination CBI Fine, other regulatory provisions, other customer redress and related matters, ROU commitments, onerous contracts and other miscellaneous provisions.

Tracker Mortgage Examination – CBI fine:

At 31 December 2021, the Group held a provision of € 70 million for the impact of monetary penalties that were expected to be imposed on the Group by the Central Bank of Ireland (CBI) as part of an administrative sanctions procedure in connection with the Tracker Mortgage Examination. The CBI concluded its Enforcement Investigation in June 2022 and the Group agreed to pay a fine of € 96.7 million. Accordingly, this provision was increased by € 26.7 million and the fine was settled. This brought the CBI's investigation into tracker mortgages at the Group to a close.

Regulatory provision

The Group previously conducted a review of certain technical matters relating to previous submissions to the Single Resolution Board which was the basis of the annual fee to the Single Resolution Fund. At 31 December 2021, the Group provided € 31 million in relation to matters arising from this review. The provision has been retained at 31 December 2022 as it is still subject to finalisation with the relevant regulatory authorities.

35 Subordinated liabilities and other capital instruments

		2022 € m	2021 € m
Dated loan capital – European Medium Term Note Programme:			
Issued by AIB Group plc			
€ 500 million Subordinated Tier 2 Notes due 2029, Callable 2024	(a)	**466**	496
€ 1 billion Subordinated Tier 2 Notes due 2031, Callable 2026	(b)	**881**	978
Issued by subsidiaries			
€ 500m Callable Step-up Floating Rate Notes due October 2017			
– nominal value € 25.5 million (maturity extended to 2035 as a result of the SLO)	(c)	**12**	12
£ 368m 12.5% Subordinated Notes due June 2019			
– nominal value £ 79 million (maturity extended to 2035 as a result of the SLO)	(c)	**44**	43
£ 500m Callable Fixed/Floating Rate Notes due March 2025			
– nominal value £ 1 million (maturity extended to 2035 as a result of the SLO)	(c)	**1**	1
		57	56
		1,404	1,530

Maturity of dated loan capital	2022 € m	2021 € m
Dated loan capital outstanding is repayable as follows:		
5 years or more	**1,404**	1,530

Dated loan capital

The dated loan capital in this section is subordinated in right of payment to senior creditors, including depositors, of the respective issuing entities. Following the implementation in Ireland of the EU (Bank Recovery and Resolution) Regulations 2015, these notes are loss absorbing at the point of non-viability.

(a) € 500 million Subordinated Tier 2 Notes due 2029, Callable 2024

On 19 November 2019, AIB Group plc issued € 500 million Subordinated Tier 2 Notes due 2029, Callable 2024.

These notes mature on 19 November 2029 but may be redeemed in whole, but not in part, at the option of the Group on the optional redemption date on 19 November 2024, subject to the approval of the regulatory authorities, with approval being conditional on meeting the requirements of the EU Capital Requirements Regulation.

The notes bear interest on the outstanding nominal amount at a fixed rate of 1.875%, payable annually in arrears on 19 November each year. The interest rate will be reset on 19 November 2024 to Eur 5 year Mid Swap rate plus the initial margin of 215 basis points.

(b) € 1 billion Subordinated Tier 2 Notes due 2031, Callable 2026

On 23 September 2020, AIB Group plc issued € 1 billion Subordinated Tier 2 Notes due 2031, Callable 2026.

These notes mature on 30 May 2031 but may be redeemed in whole, but not in part, at the option of the Group on the optional redemption date on 30 May 2026, subject to the approval of the regulatory authorities, with approval being conditional on meeting the requirements of the EU Capital Requirements Regulation.

The notes bear interest on the outstanding nominal amount at a fixed rate of 2.875%, payable annually in arrears on 30 May each year. The interest rate will be reset on 30 May 2026 to Eur 5 year Mid Swap rate plus the initial margin of 330 basis points.

(c) Other dated subordinated loan capital

Following liability management exercises and the Subordinated Liabilities Order (“SLO”) in 2011, residual balances remained on the dated loan capital instruments above. The SLO, which was effective from 22 April 2011, changed the terms of all of those outstanding dated loan capital instruments. The original liabilities were derecognised and new liabilities were recognised, with their initial measurement based on the fair value at the SLO effective date. The contractual maturity date changed to 2035 as a result of the SLO, and payment of coupons became optional at the discretion of the Group. The Board of Allied Irish Banks, p.l.c. has considered the matter and as at the date of this report, the Group’s position is that coupons are not paid on these instruments. These instruments will amortise to their nominal value in the period to their maturity in 2035.

36 Share capital

	31 December 2022		31 December 2021	
	Number of shares m	€ m	Number of shares m	€ m
Authorised				
Ordinary share capital				
Ordinary shares of € 0.625 each	**4,000.0**	**2,500**	4,000.0	2,500
Issued and fully paid				
Ordinary share capital				
Ordinary shares of € 0.625 each	**2,673.4**	**1,671**	2,714.4	1,696

Movements in share capital

In May 2022, AIB Group plc completed a Share Buyback Programme which resulted in the repurchase of 40,952,764 ordinary shares for an aggregate amount of € 91 million. These shares were subsequently cancelled and the nominal amount, € 25 million, was transferred from share capital to capital redemption reserve. The number of ordinary shares in issue at 31 December 2022 was 2,673,428,473 (31 December 2021: 2,714,381,237).

Warrants

In 2017, AIB issued warrants to the Minister for Finance to subscribe for 271,166,685 ordinary shares of AIB representing 9.99% of the issued share capital at the time (31 December 2022: 10.14%). The exercise price for the warrants is 200% of the Offer Price of € 4.40 per ordinary share, the Offer Price being the price in euro per ordinary share which was payable under the IPO. This price may be adjusted in accordance with the terms of the Warrant Instrument and the warrants will be capable of exercise by the holder of the warrants during the period commencing on 27 June 2018 and ending on 27 June 2027. Following the Share Buyback Programme the exercise price has been adjusted to € 8.663.

In accordance with the terms of the Warrant Agreement, no cash consideration was payable by the Minister to AIB in respect of the issue of the warrants.

Structure of the Company's share capital

The following table shows the structure of the Company's share capital:

	31 December 2022		31 December 2021	
	Authorised share capital %	Issued share capital %	Authorised share capital %	Issued share capital %
Class of share				
Ordinary share capital	**100**	**100**	100	100

Capital resources

The following table shows the Group's capital resources:

	31 December	
	2022 € m	2021 € m
Equity	**12,261**	13,660
Dated capital notes *(note 35)*	**1,404**	1,530
Total capital resources	**13,665**	15,190

37 Other equity interests

		2022 € m	2021 € m
Issued by AIB Group plc			
€ 500 million Additional Tier 1 Perpetual Contingent Temporary Write-Down Securities issued 2019	(a)	**496**	496
€ 625 million Additional Tier 1 Perpetual Contingent Temporary Write-Down Securities issued 2020	(b)	**619**	619
Total		**1,115**	1,115

Distributions amounting to € 65 million (2021: € 65 million) were paid in 2022 on the Additional Tier 1 Securities issued by AIB Group plc. Other equity interests are included in the Group's capital base.

(a) In 2019, the Company issued € 500 million nominal value of Additional Tier 1 Perpetual Contingent Temporary Write-Down Securities ('AT1s').

Interest on the securities, at a fixed rate of 5.250% per annum, is payable semi-annually in arrears on 9 April and 9 October, commencing on 9 April 2020. On the first reset date on 9 April 2025, in the event that the securities are not redeemed, interest will be reset to the relevant 5 year fixed rate plus a margin of 570.2 bps per annum. The interest payment is fully discretionary and non-cumulative and conditional upon the Company being solvent at the time of payment, having sufficient distributable reserves and not being required by the regulatory authorities to cancel an interest payment.

The securities are perpetual securities with no fixed redemption date. The Company may, in its sole and full discretion, subject to regulatory approval, redeem all (but not some only) of the securities on any day falling in the period commencing on (and including) 9 October 2024 and ending on (and including) the first reset date or on any interest payment date thereafter at the prevailing principal amount together with accrued but unpaid interest. In addition, the securities are redeemable at the option of the Company for certain regulatory or tax reasons, subject to regulatory approval.

The securities, which do not carry voting rights, rank pari passu with holders of other tier 1 instruments (excluding the Company's ordinary shares). They rank ahead of the holders of ordinary share capital of the Company but junior to the claims of senior creditors and to Tier 2 capital of the Company.

Under the EU (Bank Recovery and Resolution) Regulations 2015, these securities are loss absorbing at the point of non-viability.

Furthermore, if the CET1 ratio of the Group at any time falls below 7%, subject to certain conditions, the Company shall write down the AT1s by the write-down amount and irrevocably cancel any accrued and unpaid interest up to (but excluding) the write-down date. To the extent permitted, in order to comply with regulatory capital and other requirements, the Company may reinstate any previously written down amount.

(b) In 2020, the Company issued € 625 million nominal value of Additional Tier 1 Perpetual Contingent Temporary Write-Down Securities ("AT1s").

Interest on the securities, at a fixed rate of 6.250% per annum, is payable semi-annually in arrears on 23 June and 23 December, commencing on 23 December 2020. On the first reset date on 23 December 2025, in the event that the securities are not redeemed, interest will be reset to the relevant 5 year fixed rate plus a margin of 662.9 bps per annum. The interest payment is fully discretionary and non-cumulative and conditional upon the Company being solvent at the time of payment, having sufficient distributable reserves and not being required by the regulatory authorities to cancel an interest payment.

The securities are perpetual securities with no fixed redemption date. The Company may, in its sole and full discretion, subject to regulatory approval, redeem all (but not some only) of the securities on any day falling in the period commencing on (and including) 23 June 2025 and ending on (and including) the first reset date or on any interest payment date thereafter at the prevailing principal amount together with accrued but unpaid interest. In addition, the securities are redeemable at the option of the Company for certain regulatory or tax reasons, subject to regulatory approval.

The securities, which do not carry voting rights, rank pari passu with holders of other tier 1 instruments (excluding the Company's ordinary shares). They rank ahead of the holders of ordinary share capital of the Company but junior to the claims of senior creditors and to Tier 2 capital of the Company.

Under the EU (Bank Recovery and Resolution) Regulations 2015, these securities are loss absorbing at the point of non-viability.

Furthermore, if the CET1 ratio of the Group at any time falls below 7%, subject to certain conditions, the Company shall write down the AT1s by the write-down amount and irrevocably cancel any accrued and unpaid interest up to (but excluding) the write-down date. To the extent permitted by regulatory capital requirements, the Company may reinstate any previously written down amount.

38 Capital reserves, merger reserve and capital redemption reserves

	2022			2021		
	Capital contribution reserves	**Other capital reserves**	**Total**	Capital contribution reserves	Other capital reserves	Total
Capital reserves	**€ m**	**€ m**	**€ m**	€ m	€ m	€ m
At beginning and end of year	**955** (1)	**178**	**1,133**	955 (1)	178	1,133

(1) Relates to the acquisition of EBS d.a.c.

For details regarding the capital contribution reserves, refer to accounting policy (aa) in note 1.

	2022	2021
Merger reserve	**€ m**	€ m
At beginning and end of year	**(3,622)**	(3,622)

For details regarding merger reserve, refer to accounting policy (aa) in note 1.

	2022	2021
Capital redemption reserves	**€ m**	€ m
At 1 January	**14**	14
Transfer from ordinary share capital (note 36)	**25**	—
At 31 December	**39**	14

39 Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- Are offset in the Group's statement of financial position; or
- Are subject to enforceable master netting arrangements or similar agreements that cover similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and advances and customer accounts are not included in the tables below unless they are offset in the statement of financial position.

The Group has a number of ISDA Master Agreements (netting agreements) in place which allow it to net the termination values of derivative contracts upon the occurrence of an event of default with respect to its counterparties. The enforcement of netting agreements would potentially reduce the statement of financial position carrying amount of derivative assets and liabilities by € 2,220 million at 31 December 2022 (2021: € 529 million).

The Group's sale and repurchase and reverse sale and repurchase transactions and securities borrowing and lending are covered by netting agreements with terms similar to those of ISDA Master Agreements. Additionally, the Group has agreements in place which may allow it to net the termination values of cross currency swaps upon the occurrence of an event of default.

The ISDA Master Agreements and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position as they create a right of set-off of recognised amounts that become enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties. In addition, the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The Group provides and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- Derivatives
- Sale and repurchase agreements
- Reverse sale and repurchase agreements
- Securities lending and borrowing

Collateral is subject to the standard industry terms of Credit Support Annexes ("CSAs"), which enable the Group to pledge or sell securities received during the term of the transaction. The collateral must be returned on the maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions where the counterparty fails to post collateral. The CSAs in place provide collateral for derivative contracts. At 31 December 2022, € 795 million (2021: € 570 million) of CSAs are included within financial assets and € 245 million (2021: € 100 million) of CSAs are included within financial liabilities.

39 Offsetting financial assets and financial liabilities *continued*

The following table shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements at 31 December 2022 and 2021. The effects of over-collateralisation have not been taken into account in the table below.

							2022
					Related amounts not offset in the statement of financial position		
Financial assets	Note	Gross amounts of recognised financial assets € m	Gross amounts of recognised financial liabilities offset in the statement of financial position € m	Net amounts of financial assets presented in the statement of financial position € m	Financial instruments € m	Cash collateral € m	Net amount € m
Derivative financial instruments	17	2,501	—	2,501	(2,220)	(200)	81
Securities financing							
Reverse repurchase agreements	20	8,222	(5,305)	2,917	(2,899)	(18)	—
Securities borrowings	20	3,365	—	3,365	(3,365)	—	—
Total		14,088	(5,305)	8,783	(8,484)	(218)	81

							2022
					Related amounts not offset in the statement of financial position		
Financial liabilities	Note	Gross amounts of recognised financial liabilities € m	Gross amounts of recognised financial assets offset in the statement of financial position € m	Net amounts of financial liabilities presented in the statement of financial position € m	Financial instruments € m	Cash collateral € m	Net amount € m
Securities financing							
Securities sold under agreements to repurchase	20	6,203	(5,305)	898	(879)	(19)	—
Derivative financial instruments	17	2,932	—	2,932	(2,220)	(749)	(37)
Total		9,135	(5,305)	3,830	(3,099)	(768)	(37)

39 Offsetting financial assets and financial liabilities *continued*

							2021
					Related amounts not offset in the statement of financial position		
		Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Cash collateral	Net amount
Financial assets	Note	€ m	€ m	€ m	€ m	€ m	€ m
Derivative financial instruments	17	788	—	788	(529)	(56)	203
Securities financing							
Reverse repurchase agreements	20	4,788	(3,325)	1,463	(1,463)	(10)	(10)
Securities borrowings	20	2,427	—	2,427	(2,427)	—	—
Total		8,003	(3,325)	4,678	(4,419)	(66)	193

							2021
					Related amounts not offset in the statement of financial position		
		Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Financial instruments	Cash collateral	Net amount
Financial liabilities	Note	€ m	€ m	€ m	€ m	€ m	€ m
Securities financing							
Securities sold under agreements to repurchase	20	3,370	(3,325)	45	(45)	(32)	(32)
Derivative financial instruments	17	1,049	—	1,049	(529)	(526)	(6)
Total		4,419	(3,325)	1,094	(574)	(558)	(38)

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured on the following bases:

- Derivative assets and liabilities – fair value; and
- Securities financing – amortised cost.

39 Offsetting financial assets and financial liabilities *continued*

The following table reconciles the ‘Net amounts of financial assets and financial liabilities presented in the statement of financial position’, as set out in the previous pages to the line items presented in the statement of financial position at 31 December 2022 and 2021:

				2022
	Net amounts of financial assets presented in the statement of financial position	**Line item in statement of financial position**	**Carrying amounts in statement of financial position**	**Financial assets not in scope of offsetting disclosures**
Financial assets	**€ m**		**€ m**	**€ m**
Derivative financial instruments	**2,501**	Derivative financial instruments	**2,511**	**10**
Securities financing				
Reverse repurchase agreements	**2,917**			
Securities borrowings	**3,365**	Securities financing	**6,282**	**—**

				2022
	Net amounts of financial liabilities presented in the statement of financial position	**Line item in statement of financial position**	**Carrying amounts in statement of financial position**	**Financial liabilities not in scope of offsetting disclosures**
Financial liabilities	**€ m**		**€ m**	**€ m**
Securities financing				
Securities sold under agreements to repurchase	**898**	Securities financing	**898**	**—**
Derivative financial instruments	**2,932**	Derivative financial instruments	**2,982**	**50**

				2021
	Net amounts of financial assets presented in the statement of financial position	Line item in statement of financial position	Carrying amounts in statement of financial position	Financial assets not in scope of offsetting disclosures
Financial assets	€ m		€ m	€ m
Derivative financial instruments	788	Derivative financial instruments	882	94
Securities financing				
Reverse repurchase agreements	1,463			
Securities borrowing	2,427	Securities financing	3,890	—

				2021
	Net amounts of financial liabilities presented in the statement of financial position	Line item in statement of financial position	Carrying amounts in statement of financial position	Financial liabilities not in scope of offsetting disclosures
Financial liabilities	€ m		€ m	€ m
Securities financing				
Securities sold under agreements to repurchase	45	Securities financing	45	—
Derivative financial instruments	1,049	Derivative financial instruments	1,062	13

40 Contingent liabilities and commitments

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

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and risk management policies in undertaking off-balance sheet commitments as it does for 'on-balance sheet lending'.

The following table gives the nominal or contract amounts of contingent liabilities and commitments:

	Contract amount	
	2022	2021
	€ m	€ m
Contingent liabilities(1) – credit related		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	**764**	775
Other contingent liabilities	**38**	44
	802	819
Commitments(2)		
Documentary credits and short term trade-related transactions	**121**	129
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Less than 1 year	**9,173**	9,135
1 year and over	**5,766**	4,463
	15,060	13,727
	15,862	14,546

(1) Contingent liabilities are off-balance sheet products and include guarantees, irrevocable letters of credit and other contingent liability products such as performance bonds.

(2) A commitment is an off-balance sheet product where there is an agreement to provide an undrawn credit facility. The contract may or may not be cancelled unconditionally at any time without notice depending on the terms of the contract.

For details of the credit ratings and geographic concentration of contingent liabilities and commitments, see pages 154 and 184 in the 'Risk management' section of this report.

Provisions for ECLs on loan commitments and financial guarantee contracts are set out in note 34.

40 Contingent liabilities and commitments *continued*

Legal proceedings

The Group, in the course of its business, is frequently involved in litigation cases. However, it is not, nor has been involved in, nor are there, so far as the Group is aware, (other than as set out in the following paragraphs), pending or threatened by or against the Group any legal or arbitration proceedings, including governmental proceedings, which may have, or have had during the previous twelve months, a material effect on the financial position, profitability or cash flows of the Group.

Specifically, litigation has been served on the Group by customers that are pursuing claims in relation to tracker mortgages. Customers have also lodged complaints to the Financial Services and Pensions Ombudsman (“FSPO”) in relation to tracker mortgages issues.

Further claims may also be served in the future in relation to tracker mortgages. The Group will also receive further rulings by the FSPO in relation to complaints concerning tracker mortgages.

Based on the facts currently known and the current stages that the litigation and the FSPO’s complaints process is at, it is not practicable at this time to predict the final outcome of this litigation/FSPO complaints, nor the timing and possible impact on the Group.

Participation in TARGET 2 – Ireland

AIB participates in the TARGET 2-Ireland system, the Irish component of TARGET 2, which is the real time gross settlement system for large volume interbank payments in euro. The following disclosures relate to charges provided by AIB to secure its payment obligations arising from participation in TARGET 2.

On 15 February 2008, AIB executed a deed of charge pursuant to which it created a first floating charge in favour of the Central Bank of Ireland ('Central Bank') over all of its right, title, interest and benefit, present and future, in and to the balances then or at any time standing to the accounts held by AIB with any Eurosystem central bank for the purpose of participation in TARGET 2.

In addition, AIB and the Central Bank entered into a Framework Agreement in respect of Eurosystem Operations (dated 7 April 2014), which include the credit line facility for intra-day credit in TARGET 2-Ireland. In order to secure its obligations under the Framework Agreement, AIB executed a deed of charge (dated 7 April 2014). Pursuant to the deed, AIB created a first fixed charge in favour of the Central Bank over all of its right, title, interest and benefit, present and future, in and to eligible assets (as identified as such by the Central Bank) which are held in a designated collateral account.

Both deeds of charge contain provisions that during the existence of the security, otherwise than with the prior written consent of the Central Bank, AIB shall not:
(a) Create or attempt to create or permit to arise or permit any encumbrance on or over the charged property or any part thereof; or
(b) Otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the property subject to the floating charge or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

In addition, under the 2014 charge, AIB undertakes not to sell, transfer, lend or otherwise dispose of or deal in the assets subject to the fixed charge or any part thereof or, in each case, attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

41 Subsidiaries and consolidated structured entities

The material Group subsidiary companies at 31 December 2022 and 2021 are:

Name of company	Principal activity	Place of incorporation	Registered Office
Allied Irish Banks, p.l.c.	A direct subsidiary of AIB Group plc and the principal operating company of the Group and holds the majority of the subsidiaries within the Group. Its activities include banking and financial services – a licensed bank	Ireland	10 Molesworth Street, Dublin 2, Ireland.
AIB Mortgage Bank Unlimited Company	Issue of mortgage covered securities – a licensed bank	Ireland	10 Molesworth Street, Dublin 2, Ireland.
EBS d.a.c.	Mortgages and savings – a licensed bank	Ireland	10 Molesworth Street, Dublin 2, Ireland.
AIB Group (UK) p.l.c. trading as Allied Irish Bank (GB) in Great Britain and AIB (NI) in Northern Ireland	Banking and financial services – a licensed bank	Northern Ireland	92 Ann Street, Belfast BT1 3HH.

The proportion of ownership interest and voting power held by AIB Group plc in Allied Irish Banks, p.l.c. is 100% of the ordinary share capital. All subsidiaries of Allied Irish Banks, p.l.c., being the immediate subsidiary of AIB Group plc, are wholly owned apart from Augmentum Limited in which there are non-controlling interests. Practically all subsidiaries in the Group are involved in the provision of financial services or ancillary services.

Acquisition of subsidiary

On 31 August 2021 the Group acquired Goodbody, a leading Irish provider of wealth management, corporate finance and capital markets services, by acquiring 100% of the voting shares of GANMAC Holdings (BVI) Limited and its subsidiaries. Under the terms of the agreement, the Group acquired the entire share capital for a total consideration, including deferred contingent consideration, of € 139 million. The acquisition gave rise to the recognition of goodwill of € 50 million.

Significant restrictions

Each of the subsidiaries listed above which is a licensed bank is required by its respective financial regulator to maintain capital ratios above a certain minimum level. These minimum ratios restrict the payment of dividend by the subsidiary and, where the ratios fall below the minimum requirement, will require the parent company to inject capital to make up the shortfall.

Consolidated structured entities

The Group has acted as sponsor and invested in a number of special purpose entities (“SPEs”) in order to generate funding for the Group’s lending activities (with the exception of AIB PFP Scottish Limited Partnership). The Group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity.

The following SPEs are consolidated by the Group:
- Burlington Mortgages No. 1 DAC;
- AIB PFP Scottish Limited Partnership.

Further details on these SPEs are set out in note 42.

There are no contractual arrangements that could require AIB Group plc or its subsidiaries to provide financial support to the consolidated structured entities listed above. During the year, neither AIB Group plc nor any of its subsidiaries provided financial support to a consolidated structured entity and there is no current intention to provide financial support.

Unconsolidated structured entities

The Group acts as a fund or investment manager for a number of unconsolidated structured entities for which it receives investment or fund management fees. The Group acts as sponsor of these entities. The Group has no units within these funds. Therefore the carrying amount of assets and liabilities in relation to these entities in the Group’s statement of financial position is Nil (2021: Nil).

The Group’s maximum exposure to loss is equal to the value of outstanding fees owed from these entities of € 2 million at 31 December 2022 (31 December 2021: € 2 million). These entities are financed by investors in the entities. During the year the Group has not provided any non-contractual financial or other support to these entities and has no current intention of providing any financial or other support.

Non-controlling interests in subsidiary undertaking

On 31 October 2019, Augmentum Limited (‘Augmentum’), of which 75% is owned by the Group and 25% by a non-controlling interest, First Data Global Services Limited (part of First Data Corporation which is owned by Fiserv Inc.), acquired 96.77% of the equity share capital and voting rights of Semeral Limited (‘Semeral’), the holding company for Payzone Ireland Limited (‘Payzone’).

Semeral/Payzone place of business: 4 Heather Road, Sandyford Industrial Estate, Dublin 18

42 Off-balance sheet arrangements and transferred financial assets

Under IFRS, transactions and events are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. As a result, the substance of transactions with a special purpose entity ("SPE") forms the basis for their treatment in the Group's financial statements. An SPE is consolidated in the financial statements when the substance of the relationship between the Group and the SPE indicates that the SPE is controlled by the entity and meets the criteria set out in IFRS 10 *Consolidated Financial Statements*. The principal forms of SPE utilised by the Group are securitisations and employee compensation trusts.

Securitisations

The Group utilises securitisations primarily to support the following business objectives:

- As an investor, the Group has primarily been an investor in securitisations issued by other credit institutions as part of the management of its interest rate and liquidity risks through the Treasury function;
- As an investor, securitisations have been utilised by the Group to invest in transactions that offered an appropriate risk-adjusted return opportunity; and
- As an originator of securitisations to support the funding activities of the Group.

The Group controls certain special purpose entities which were set up to support its funding activities. Details of these special purpose entities are set out below under the heading 'Special purpose entities'. The Group controls two special purpose entities set up in relation to the funding of the Group Pension Schemes which are also detailed below.

Securities borrowing and lending

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss is included in trading income.

Employee compensation trusts

The Group and some of its subsidiary companies use trust structures to benefit employees and to facilitate the ownership of the Group's equity by employees. The Group consolidates these trust structures where the risks and rewards of the underlying shares have not been transferred to the employees. All outstanding shares held by Trustees were disposed of during 2018.

Transfer of financial assets

The Group enters into transactions in the normal course of business in which it transfers previously recognised financial assets. Transferred financial assets may, in accordance with IFRS 9 *Financial Instruments*:
(i) Continue to be recognised in their entirety; or
(ii) Be derecognised in their entirety but the Group retains some continuing involvement.

The most common transactions where the transferred assets are not derecognised in their entirety are sale and repurchase agreements, issuance of covered bonds and securitisations.

(i) Transferred financial assets not derecognised in their entirety

Sale and repurchase agreements/securities lending

Sale and repurchase agreements are transactions in which the Group sells a financial asset to another party, with an obligation to repurchase it at a fixed price on a certain later date. The Group continues to recognise the financial assets in full in the statement of financial position as it retains substantially all the risks and rewards of ownership. The Group's sale and repurchase agreements are with banks and customers. The obligation to pay the repurchase price is recognised within 'Securities financing' (note 20). As the Group sells the contractual rights to the cash flows of the financial assets, it does not have the ability to use or pledge the transferred assets during the term of the sale and repurchase agreement. The Group remains exposed to credit risk and interest rate risk on the financial assets sold. Details of sale and repurchase activity are set out in note 20. The obligation arising as a result of sale and repurchase agreements together with the carrying value of the financial assets pledged are set out in the table below.

The Group enters into securities lending in the form of collateral swap agreements with other parties. The Group continues to recognise the financial assets in full in the statement of financial position as it retains substantially all the risks and rewards of ownership. As a result of these transactions, the Group is unable to use, sell or pledge the transferred assets for the duration of the transaction. A fee is generated for the Group under this transaction.

Issuance of covered bonds

Covered bonds, which the Group issues, are debt securities backed by cash flows from mortgages for the purpose of financing loans secured on residential property through its wholly owned subsidiary, AIB Mortgage Bank Unlimited Company. The Group retains all the risks and rewards of these mortgage loans, including credit risk and interest rate risk, and therefore, the loans continue to be recognised on the Group's statement of financial position with the related covered bonds held by external investors included within 'Debt securities in issue' (note 31). As the Group segregates the assets which back these debt securities into "cover asset pools" it does not have the ability to otherwise use such segregated financial assets during the term of these debt securities. However, of the total debt securities of this type issued amounting to € 8.3 billion, internal Group companies hold € 7.3 billion which are eliminated on consolidation.

42 Off-balance sheet arrangements and transferred financial assets *continued*

Special purpose entities

Securitisations are transactions in which the Group sells loans and advances to customers (mainly mortgages) to special purpose entities ("SPEs"), which, in turn, issue notes to external investors. The notes issued by the SPEs are on terms which result in the Group retaining the majority of ownership risks and rewards and therefore, the loans continue to be recognised in the Group's statement of financial position. The Group remains exposed to credit risk, interest rate risk and foreign exchange risk on the loans sold. The liability in respect of the cash received from the external investors is included within 'Debt securities in issue' (note 31). Under the terms of the securitisations, the rights of the investors are limited to the assets in the securitised portfolios and any related income generated by the portfolios, without further recourse to the Group. The Group does not have the ability to otherwise use the assets transferred as part of securitisation transactions during the term of the arrangement.

Burlington Mortgages No. 1 DAC

In 2020, the Group securitised € 4 billion of its residential mortgage portfolio held in two of its subsidiaries, EBS d.a.c. and Haven Mortgages Limited. These mortgages were transferred to a securitisation vehicle, Burlington Mortgages No. 1 DAC "Burlington". In order to fund the acquired mortgages, Burlington issued twelve classes of notes to EBS d.a.c. and Haven in the same proportion as the mortgages securitised. The transferred mortgages have not been derecognised as the Group retains substantially all the risks and rewards of ownership and continue to be reported in the Group's financial statements. Burlington is consolidated into the Group's financial statements with all the notes being eliminated on consolidation. At 31 December 2022, the carrying amount of the transferred financial assets which the Group continues to recognise is € 2.8 billion (2021: € 3.2 billion) (fair value is € 2.6 billion (2021: € 2.9 billion)) and the carrying amount of the associated liabilities is Nil (2021: Nil).

The following table summarises as at 31 December 2022 and 2021, the carrying value and fair value of financial assets which did not qualify for derecognition together with their associated financial liabilities.

							2022
	Carrying amount of transferred assets		**Carrying amount of associated liabilities**		**Fair value of transferred assets**	**Fair value of associated liabilities**	**Net fair value position**
	€ m		**€ m**		**€ m**	**€ m**	**€ m**
Sale and repurchase agreements/similar products	**5,945**	(1)(2)	**898**	(1)	**5,949**	**898**	**5,051**
Covered bond programmes							
Residential mortgage backed	**1,845**	(3)	**1,024**	(4)	**1,756**	**1,026**	**730**

							2021
	Carrying amount of transferred assets		Carrying amount of associated liabilities		Fair value of transferred assets	Fair value of associated liabilities	Net fair value position
	€ m		€ m		€ m	€ m	€ m
Sale and repurchase agreements/similar products	3,368	(1)(2)	45	(1)	3,371	45	3,326
Covered bond programmes							
Residential mortgage backed	2,820	(3)	1,789	(4)	2,693	1,799	894

(1) See note 20.

(2) Includes € 5,030 million of assets pledged in relation to securities lending arrangements (2021: € 3,306 million).

(3) The asset pools of € 15 billion (2021: € 15 billion) in the covered bond programme have been apportioned on a pro-rata basis in relation to the value of bonds held by external investors and those held by the Group companies. The € 1,845 million (2021: € 2,820 million) above refers to those assets apportioned to external investors.

(4) Included in 'Bonds and other medium term notes' issued by subsidiaries (note 31).

42 Off-balance sheet arrangements and transferred financial assets *continued*

AIB Group (UK) p.l.c. Pension Scheme interest in the AIB PFP Scottish Limited Partnership

In December 2013, the Group agreed with the Trustee of the AIB UK Defined Benefit Pension Scheme ("the UK scheme") a restructure of the funding of the deficit in the UK scheme.

The Group established a pension funding partnership, AIB PFP Scottish Limited Partnership ("SLP") under which a portfolio of loans were transferred to the SLP from another Group entity, AIB UK Loan Management Limited ("UKLM") for the purpose of ring-fencing the repayments on these loans to fund future deficit payments of the UK scheme.

Assets ring–fenced for this purpose entitled the UK Scheme to expected annual payments in the range of £ 15 million to £ 35 million per annum from 2016 until 2032, with a potential termination payment in 2032 of up to £ 60 million. Following the approval of the 2017 triennial valuation in May 2019, the annual payments were set at £ 15 million per annum, commencing 1 January 2019. However, this funding plan was replaced in December 2019, as part of the de-risking of the UK scheme (note 28).Under this funding arrangement, the Group expects to make payments of £ 18.5 million in 2023 with a final balancing payment, based on latest estimates from LGAS of c. £ 27 million. This is subject to change prior to finalisation.

The general partner in the partnership, AIB PFP (General Partner) Limited which is an indirect subsidiary of Allied Irish Banks, p.l.c., has controlling power over the partnership. In addition, the majority of the risks and rewards will be borne by the Group as the pension scheme has a priority right to the cash flows from the partnership, such that the variability in recoveries is expected to be borne by the Group through UKLM's junior partnership interest. As UKLM continues to bear substantially all the risks and rewards of the loans, the loans are not derecognised from UKLM's balance sheet and accordingly, the Group has determined that the SLP should be consolidated into the Group.

(ii) Transferred financial assets derecognised in their entirety but the Group retains some continuing involvement

AIB has a continuing involvement in transferred financial assets where it retains any of the risks and rewards of ownership of the transferred financial assets. Set out below are transactions in which AIB has a continuing involvement in assets transferred.

Pension scheme

On 31 July 2012, AIB entered into a Contribution Deed with the Trustee of the AIB Group Irish Pension Scheme ('the Irish Scheme'), whereby it agreed to make contributions to the scheme to enable the Trustee ensure that the regulatory Minimum Funding Standard position of non-pensioner members of the pension scheme was not affected by the agreed early retirement scheme. These contributions amounting to € 594 million were settled through the transfer to the Irish Scheme of interests in an SPE owning loans and advances previously transferred at fair value from the Group. The loans and advances were derecognised in the Group's financial statements as all of the risks and rewards of ownership had transferred.

A subsidiary company of the Group was appointed as a service provider for the loans and advances transferred. Under the servicing agreement, the Group subsidiary company collects the cash flows on the transferred loans and advances on behalf of the pension scheme in return for a fee. The fee is based on an annual rate of 0.125% of the principal balance outstanding of all transferred loans and advances on the last day of each calendar month. The Group has not recognised a servicing asset/liability in relation to this servicing arrangement as the fee is considered to be a market rate. Under the servicing agreement, the Irish Scheme has the right to replace the Group subsidiary company as the service provider with an external third party. In 2022, the Group recognised € 0.5 million (cumulative € 9.2 million) (2021: € 0.5 million (cumulative € 8.7 million)) in the income statement for the servicing of the loans and advances transferred.

NAMA

During 2010 and 2011, AIB transferred financial assets with a net carrying value of € 15,428 million to NAMA. All assets transferred were derecognised in their entirety.

As part of this transaction, the Group has provided NAMA with a series of indemnities relating to the transferred assets.

The Group was appointed by NAMA as a service provider for the loans and advances transferred, for which it receives a fee. The fee is based on the lower of actual costs incurred or 0.1% of the value of the financial assets transferred. The Group has not recognised a servicing asset/liability in relation to this servicing arrangement. In 2022, the Group recognised € 2 million (cumulative € 100 million) (2021: € 2 million (cumulative € 98 million)) in the income statement for the servicing of financial assets transferred to NAMA.

43 Classification and measurement of financial assets and financial liabilities

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The accounting policy for financial assets in note 1 (l) and financial liabilities in note 1 (m), describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the carrying amounts of the financial assets and financial liabilities by measurement category and by statement of financial position heading at 31 December 2022 and 2021.

					2022
	At fair value through profit or loss	At fair value through other comprehensive income		At amortised cost	Total
	Mandatorily	Debt investments	Hedging derivatives		
	€ m	€ m	€ m	€ m	€ m
Financial assets					
Cash and balances at central banks	—	—	—	38,138 (1)	38,138
Trading portfolio financial assets	8	—	—	—	8
Derivative financial instruments	2,323 (2)	—	188	—	2,511
Loans and advances to banks	—	—	—	1,502	1,502
Loans and advances to customers	249	—	—	59,364	59,613
Securities financing	—	—	—	6,282	6,282
Investment securities	302	11,837	—	4,131	16,270
Other financial assets	—	—	—	592	592
	2,882	11,837	188	110,009	124,916
Financial liabilities					
Deposits by central banks and banks	—	—	—	514	514
Customer accounts	—	—	—	102,359	102,359
Securities financing	—	—	—	898	898
Trading portfolio financial liabilities	4	—	—	—	4
Derivative financial instruments	1,032 (3)	—	1,950	—	2,982
Debt securities in issue	—	—	—	7,203	7,203
Subordinated liabilities and other capital instruments	—	—	—	1,404	1,404
Other financial liabilities	—	—	—	1,375	1,375
	1,036	—	1,950	113,753	116,739

(1) Includes cash on hand € 573 million.
(2) Held for trading € 646 million and fair value hedges € 1,677 million.
(3) Held for trading € 599 million and fair value hedges € 433 million.

43 Classification and measurement of financial assets and financial liabilities *continued*

	At fair value through profit or loss		At fair value through other comprehensive income		At amortised cost		Total
	Mandatorily		Debt investments	Hedging derivatives			
2021	€ m		€ m	€ m	€ m		€ m
Financial assets							
Cash and balances at central banks	—		—	—	42,654	(1)	42,654
Trading portfolio financial assets	8		—	—	—		8
Derivative financial instruments	714	(2)	—	168	—		882
Loans and advances to banks	—		—	—	1,323		1,323
Loans and advances to customers	243		—	—	56,265		56,508
Securities financing	—		—	—	3,890		3,890
Investment securities	274		12,589	—	4,071		16,934
Other financial assets	—		—	—	886		886
	1,239		12,589	168	109,089		123,085
Financial liabilities							
Deposits by central banks and banks	—		—	—	10,382		10,382
Customer accounts	—		—	—	92,866		92,866
Securities financing	—		—	—	45		45
Trading portfolio financial liabilities	2		—	—	—		2
Derivative financial instruments	757	(3)	—	305	—		1,062
Debt securities in issue	—		—	—	5,881		5,881
Subordinated liabilities and other capital instruments	—		—	—	1,530		1,530
Other financial liabilities	—		—	—	1,375		1,375
	759		—	305	112,079		113,143

(1) Includes cash on hand € 545 million.
(2) Held for trading € 458 million and fair value hedges € 256 million.
(3) Held for trading € 565 million and fair value hedges € 192 million.

44 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 market, or in its absence, the most advantageous market to which the Group has access at that date. The Group's accounting policy for the 'determination of fair value of financial instruments' is set out in note 1 accounting policy (o).

The valuation of financial instruments, including loans and advances, involves the application of judgement and estimation. Market and credit risks are key assumptions in the estimation of the fair value of loans and advances. The Group has estimated the fair value of its loans to customers taking into account market risk and the changes in credit quality of its borrowers.

Fair values are based on observable market prices where available, and on valuation models or techniques where the lack of market liquidity means that observable prices are unavailable. The fair values of financial instruments are classified according to the following fair value hierarchy that reflects the observability of significant market inputs:

Level 1 – financial assets and liabilities measured using quoted market prices from an active market (unadjusted);
Level 2 – financial assets and liabilities measured using valuation techniques which use quoted market prices from an active market or measured using quoted market prices unadjusted from an inactive market; and
Level 3 – financial assets and liabilities measured using valuation techniques which use unobservable market inputs.

All financial instruments are initially recognised at fair value. Financial instruments held for trading, those whose contractual terms do not give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI"), and financial instruments in fair value hedge relationships are subsequently measured at fair value through profit or loss. Financial assets in a held-to-collect-and-sell business model which pass the SPPI test and cash flow hedge derivatives are subsequently measured at fair value through other comprehensive income ("FVOCI").

All valuations are carried out within the Finance function and valuation methodologies are validated by the independent Risk function within the Group.

Readers of these financial statements are advised to use caution when using the data in the following tables to evaluate the Group's financial position or to make comparisons with other institutions. Fair value information is not provided for items that do not meet the definition of a financial instrument. These items include intangible assets such as the value of the branch network and the long term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the Group as a going concern at 31 December 2022.

The methods used for calculation of fair value in 2022 are as follows:

Financial instruments measured at fair value in the financial statements

Trading portfolio financial instruments

The fair value of trading debt securities, together with quoted equity shares is based on quoted prices or bid/offer quotations sourced from external securities dealers, where these are available on an active market. Where securities and equities are traded on an exchange, the fair value is based on prices from the exchange.

Derivative financial instruments

Where derivatives are traded on an exchange, the fair value is based on prices from the exchange. The fair value of over-the-counter derivative financial instruments is estimated based on standard market discounting and valuation methodologies which use reliable observable inputs including yield curves and market rates. These methodologies are implemented by the Finance function and validated by the Risk function. Where there is uncertainty around the inputs to a derivatives' valuation model, the fair value is estimated using inputs which provide the Group's view of the most likely outcome in a disposal transaction between willing counterparties in a functioning market. Where an unobservable input is material to the outcome of the valuation, a range of potential outcomes from favourable to unfavourable is estimated.

Counterparty valuation adjustment ("CVA") and Funding valuation adjustment ("FVA") are applied to all uncollateralised over-the-counter derivatives. The combination of CVA and FVA is referred to as XVA.

CVA is calculated as: Expected positive exposure ("EPE") multiplied by probability of default ("PD") multiplied by loss given default ("LGD"). EPE profiles are generated at a counterparty netting set through simulation. PDs are derived from market based credit default swaps ("CDS") information. As most counterparties do not have a quoted CDS, PDs are derived by mapping each counterparty to an index CDS credit grade. LGDs are based on the specific circumstances of the counterparty and take into account valuation of offsetting security, where applicable. For smaller exposures where security valuations are not individually assessed, an LGD of 60% is applied (2021: 60%).

44 Fair value of financial instruments *continued*

FVA is calculated as: Expected exposure (“EE”) multiplied by funding spread (“FS”) multiplied by counterpart survival probability (1-PD). EE profiles (net of expected positive and negative exposures) are generated at a counterparty netting set through simulation. Funding spreads used are an average implied by CDSs for the Group’s most active external derivative counterparties. The rationale in applying these spreads is to best estimate the FVA which a counterparty would apply in a transaction to close out the Group’s existing positions.

Where XVA valuation adjustments have been applied to a derivative instrument, the entire instrument is classified as Level 3 in the fair value hierarchy on the basis that a component of the XVA valuation is derived from unobservable inputs.

Within the range of estimates and fair value sensitivity measurements, a favourable and an adverse scenario have been selected for PDs and LGDs for CVA. The favourable/adverse scenario for customer PDs are (i) a single rating upgrade and (ii) a single rating downgrade, respectively. Customer LGDs are shifted according to estimates of improvement in value of security compared with potential derivatives market values. Within the combination of LGD and PD, both are shifted together yielding positive and negative valuations which are disclosed as potential alternative valuations. See 'Sensitivity of Level 3 measurements' within this note. For FVA, a favourable scenario is the use of the bond yields of the Group’s most active derivative counterparties while an adverse scenario is a downgrade in the CDS of the reference entities used to derive funding spreads.

Investment securities

The fair value of investment securities has been estimated based on expected sale proceeds. The expected sale proceeds are based on bid prices which have been analysed and compared across multiple sources for reliability. Where bid prices are unavailable, fair values are estimated by valuation techniques using observable market data for similar instruments. Where there is no market data for a directly comparable instrument, management judgement on an appropriate credit spread to similar or related instruments with market data available is used within the valuation technique. This is supported by cross referencing other similar or related instruments.

Loans and advances to customers

The Group provides lending facilities of varying rates and maturities to corporate and personal customers.

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

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.

The majority of loans and advances to customers are held at amortised cost, however, the Group has a small number of loans and advances which are required to be measured at fair value through profit or loss (‘FVTPL’) having failed the SPPI test. The valuation techniques used apply equally to those held at FVTPL and those held at amortised cost.

Financial instruments not measured at fair value but with fair value information presented separately in the notes to the financial statements

Loans and advances to banks

The fair value of loans and advances to banks is estimated using discounted cash flows applying either market rates, where practicable, or rates currently offered by other financial institutions for placings with similar characteristics.

Loans and advances to customers at amortised cost

See methodology above under the heading ‘Loans and advances to customers’.

Securities financing

The fair value of securities financing assets and liabilities approximate their carrying amount as these balances are generally short-dated and fully collateralised.

Deposits by central banks and banks and customer accounts

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

44 Fair value of financial instruments *continued*

Subordinated liabilities and debt securities in issue

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

Other financial assets and other financial liabilities

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

Commitments pertaining to credit-related instruments

Details of the various credit-related commitments and other off-balance sheet financial guarantees entered into by the Group are included in note 40. Fees for these instruments may be billed in advance or in arrears on an annual, quarterly or monthly basis. In addition, the fees charged vary on the basis of instrument type and associated credit risk. As a result, it is not considered practicable to estimate the fair value of these instruments because each customer relationship would have to be separately evaluated.

The table on the following pages sets out the carrying amount and fair value of financial instruments across the three levels of the fair value hierarchy at 31 December 2022 and 2021:

44 Fair value of financial instruments *continued*

					2022
	Carrying amount				**Fair Value**
		Fair value hierarchy			
		Level 1	**Level 2**	**Level 3**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**
Financial assets measured at fair value					
Trading portfolio financial assets:					
Equity securities	8	8	—	—	8
Derivative financial instruments:					
Interest rate derivatives	2,343	—	2,255	88 (1)	2,343
Exchange rate derivatives	164	—	164	—	164
Equity derivatives	4	—	4	—	4
Credit derivatives	—	—	—	—	—
Loans and advances to customers at FVTPL	249	—	—	249	249
Investment debt securities at FVOCI:					
Government securities	3,824	3,824	—	—	3,824
Supranational banks and government agencies	1,298	1,298	—	—	1,298
Asset backed securities	453	438	15	—	453
Bank securities	5,763	5,763	—	—	5,763
Corporate securities	499	499	—	—	499
Equity investments at FVTPL	302	18	—	284	302
	14,907	11,848	2,438	621	14,907
Financial assets not measured at fair value					
Cash and balances at central banks	38,138	573 (2)	37,565	—	38,138
Loans and advances to banks	1,502	—	262	1,240	1,502
Loans and advances to customers:					
Mortgages(3)	30,031	—	—	28,625	28,625
Non-mortgages	29,333	—	—	29,253	29,253
Total loans and advances to customers	59,364	—	—	57,878	57,878
Securities financing:					
Reverse repurchase agreements	2,917	—	—	2,917	2,917
Securities borrowing	3,365	—	—	3,365	3,365
Investment debt securities measured at amortised cost	4,131	2,413	—	1,739	4,152
Other financial assets	592	—	—	592	592
	110,009	2,986	37,827	67,731	108,544
Financial liabilities measured at fair value					
Trading portfolio financial liabilities:					
Equity securities	4	4	—	—	4
Derivative financial instruments:					
Interest rate derivatives	2,900	—	2,477	423 (1)	2,900
Exchange rate derivatives	72	—	72	—	72
Equity derivatives	—	—	—	—	—
Credit derivatives	1	—	1	—	1
Other	9 (4)	—	—	9	9
	2,986	4	2,550	432	2,986
Financial liabilities not measured at fair value					
Deposits by central banks and banks:					
Other borrowings	232	—	—	232	232
Secured borrowings	282	—	282	—	282
Customer accounts:					
Current accounts	64,402	—	—	64,402	64,402
Demand deposits	32,595	—	—	32,595	32,595
Time deposits	5,362	—	—	5,348	5,348
Securities financing:					
Securities sold under agreements to repurchase	898	—	—	898	898
Debt securities in issue	7,203	7,214	11	16	7,241
Subordinated liabilities and other capital instruments	1,404	1,401	—	13	1,414
Other financial liabilities	1,375	—	—	1,375	1,375
	113,753	8,615	293	104,879	113,787

(1) Includes € 40 million derivative assets and € 372 million derivative liabilities categorised as level 3 on the basis that a component of the XVA valuation is derived from unobservable inputs.
(2) Comprises cash on hand.
(3) Includes residential and commercial mortgages.
(4) Relates to the forward contract to acquire corporate and commercial loans from Ulster Bank. See note 52 for further information.

44 Fair value of financial instruments *continued*

					2021
	Carrying amount				Fair Value
		Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
	€ m	€ m	€ m	€ m	€ m
Financial assets measured at fair value					
Trading portfolio financial assets:					
Equity securities	8	8	—	—	8
Derivative financial instruments:					
Interest rate derivatives	806	—	505	301 (1)	806
Exchange rate derivatives	76	—	76	—	76
Credit derivatives	—	—	—	—	—
Loans and advances to customers at FVTPL	243	—	—	243	243
Investment debt securities at FVOCI:					
Government securities	4,752	4,752	—	—	4,752
Supranational banks and government agencies	1,260	1,260	—	—	1,260
Asset backed securities	495	456	39	—	495
Bank securities	5,565	5,565	—	—	5,565
Corporate securities	517	517	—	—	517
Equity investments at FVTPL	274	26	—	248	274
	13,996	12,584	620	792	13,996
Financial assets not measured at fair value					
Cash and balances at central banks	42,654	545 (2)	42,109	—	42,654
Loans and advances to banks	1,323	—	361	962	1,323
Loans and advances to customers:					
Mortgages[3]	29,088	—	—	27,509	27,509
Non-mortgages	27,177	—	—	27,246	27,246
Total loans and advances to customers	56,265	—	—	54,754	54,754
Securities financing:					
Reverse repurchase agreements	1,463	—	—	1,463	1,463
Securities borrowing	2,427	—	—	2,427	2,427
Investment debt securities measured at amortised cost	4,071	2,982	—	1,138	4,120
Other financial assets	886	—	—	886	886
	109,089	3,527	42,470	61,630	107,627
Financial liabilities measured at fair value					
Trading portfolio financial assets:					
Equity securities	2	2	—	—	2
Derivative financial instruments:					
Interest rate derivatives	839	—	743	96 (1)	839
Exchange rate derivatives	200	—	200	—	200
Equity derivatives	17	—	17	—	17
Credit derivatives	6	—	6	—	6
	1,064	2	966	96	1,064
Financial liabilities not measured at fair value					
Deposits by central banks and banks:					
Other borrowings	84	—	—	84	84
Secured borrowings	10,298	—	10,298	—	10,298
Customer accounts:					
Current accounts	57,895	—	—	57,895	57,895
Demand deposits	29,762	—	—	29,762	29,762
Time deposits	5,209	—	—	5,220	5,220
Securities financing:					
Securities sold under agreements to repurchase	45	—	—	45	45
Debt securities in issue	5,881	5,953	13	20	5,986
Subordinated liabilities and other capital instruments	1,530	1,620	—	16	1,636
Other financial liabilities	1,375	—	—	1,375	1,375
	112,079	7,573	10,311	94,417	112,301

(1) Includes € 244 million derivative assets and € 38 million derivative liabilities categorised as level 3 on the basis that a component of the XVA valuation is derived from unobservable inputs.
(2) Comprises cash on hand.
(3) Includes residential and commercial mortgages.

44 Fair value of financial instruments *continued*

Significant transfers between Level 1 and Level 2 of the fair value hierarchy

There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy for the years ended 31 December 2022 and 2021.

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table shows a reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy:

								2022
	Financial assets						Financial liabilities	
	Derivatives	Investment securities		Loans and advances at FVTPL	Equities at FVTPL	Total	Derivatives	Total
		Debt	Equities at FVOCI					
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2022	301	—	—	243	248	792	96	96
Transfers into/out of level 3[1]	—	—	—	—	—	—	—	—
Total gains or (losses) in:								
Profit or loss:								
Net trading income	(213)	—	—	—	—	(213)	336	336
Net change in FVTPL	—	—	—	14	89	103	—	—
	(213)	—	—	14	89	(110)	336	336
Other comprehensive income:								
Net change in fair value of investment securities	—	—	—	—	—	—	—	—
Net change in fair value of cash flow hedges	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—
Purchases/additions	—	—	—	25	72	97	—	—
Sales/disposals	—	—	—	(1)	(125)	(126)	—	—
Cash received:								
Principal	—	—	—	(32)	—	(32)	—	—
At 31 December 2022	88	—	—	249	284	621	432	432

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

44 Fair value of financial instruments *continued*

Reconciliation of balances in Level 3 of the fair value hierarchy

								2021
	Financial assets						Financial liabilities	
	Derivatives	Investment securities		Loans and advances at FVTPL	Equities at FVTPL	Total	Derivatives	Total
		Debt	Equities at FVOCI					
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2021	489	—	—	75	177	741	80	80
Transfers into/out of level 3[1]	—	—	—	—	—	—	—	—
Total gains or (losses) in:								
Profit or loss:								
Net trading income	(188)	—	—	—	—	(188)	16	16
Net change in FVTPL	—	—	—	21	58	79	—	—
	(188)	—	—	21	58	(109)	16	16
Other comprehensive income:								
Net change in fair value of investment securities	—	—	—	—	—	—	—	—
Net change in fair value of cash flow hedges	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—
Purchases/additions	—	—	—	181	44	225	—	—
Sales/disposals	—	—	—	(1)	(31)	(32)	—	—
Cash received:								
Principal	—	—	—	(33)	—	(33)	—	—
At 31 December 2021	301	—	—	243	248	792	96	96

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

The table below sets out the total gains or losses included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities categorised as Level 3 in the fair value hierarchy held at 31 December 2022 and 2021:

	2022	2021
	€ m	€ m
Net trading income – (losses)	**(281)**	(151)
Gains on equity investments at FVTPL	**13**	51
Losses on loans and advances at FVTPL	**(16)**	(12)
	(284)	(112)

44 Fair value of financial instruments *continued*

Significant unobservable inputs

The table below sets out information about significant unobservable inputs used in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

		Fair value				Range of estimates	
Financial instrument		**2022 € m**	2021 € m	**Valuation technique**	**Significant unobservable input**	**31 December 2022**	31 December 2021
Uncollateralised customer derivatives	Asset	**88**	301	CVA	LGD	**26% - 43%**	29% - 46%
	Liability	**423**	96			**(Base 34%)**	(Base 38%)
					PD	**0.8% - 4.6%**	0.5% - 2.6%
						(Base 2.1% 1year PD)	(Base 1.2%, 1year PD)
				FVA	Funding spreads	**(0.1%) to 0.2%**	(0.2%) to 0.3%
Ulster Bank forward contract	Liability	**9**	n/a	Discounted Expected Future Cash flows	PD	**(0.5%) to 0.5%**	n/a
					Discount Yield	**(0.5%) to 0.5%**	n/a
Visa Inc. Series B Preferred Stock	Asset	**22**	50	Quoted market price (to which a discount has been applied)	Final conversion rate	**0% - 90%**	0% - 90%
Loans and advances to customers measured at FVTPL	Asset	**249**	243	Discounted cash flows*	Discount on market value	**(4%) - 3%**	(1)% - 9%
				Collateral values	Collateral changes	**n/a**	n/a

*Expected cash flows discounted at market rates, taking into consideration the fair value of collateral where relevant.

Uncollateralised customer derivatives

Interest rate derivatives (assets and liabilities) include negative XVA valuation adjustments amounting to net € 18 million (2021: € 28 million). The sensitivity to unobservable inputs for this XVA valuation adjustment at 31 December 2022 ranges from (i) negative € 12 million to positive € 6 million for CVA (2021: negative € 23 million to positive € 1 million) and (ii) negative € 2 million to positive € 1 million for FVA (2021: negative € 5 million to positive € 3 million).

A number of other derivatives are subject to valuation methodologies which use unobservable inputs. As the variability of the valuation is not greater than € 1 million in any individual case or collectively, the detail is not disclosed here.

Ulster Bank forward contract

The Group entered into a binding agreement in 2021 to acquire performing Ulster Bank corporate and commercial loans which was subject to regulatory approval. This transaction is an asset acquisition as the Group concluded that it did not meet the definition of a business combination. Following the receipt of regulatory authority approval, the contract to acquire the loans (which is not considered a regular way transaction) is a forward contract which recognises the change in fair value from the agreement date to the earlier of the reporting date or the acquisition date for a loan. The notional value of the forward contract at 31 December 2022 represents the principal amount of performing loans to be acquired by the Group in 2023. Refer to note 17.

The following are key considerations in determining the fair value of the forward contract at 31 December 2022:

- **Valuation technique:** The loans are valued by discounting the expected future cash flows, allowing for interest and principal payments to date and fees/charges. Key drivers of the valuation include PDs which determine potential reductions in expected cash flows due to changes in credit quality, and the discount yield which is used to calculate a present value of the expected future cash flows. The updated value for the loans is then compared with the agreed transaction price to determine the change in fair value.
- **Unobservable input:** The PDs used for generation of the underlying expected cash flows are unobservable as the loans are not publicly quoted, and the discount yield is also unobservable due to lack of publicly available information for transactions of this type.
- **Range of estimates:** The range of estimates is based on the application of favourable/adverse scenarios for customer PDs and discounting yields, based on the trend of previous movements in these rates.

44 Fair value of financial instruments *continued*

The fair value sensitivity to unobservable inputs ranges from negative € 3.1 million to positive € 2.9 million for PDs at 31 December 2022, and negative € 8.7 million to a positive of € 8.9 million for discount yield.

A number of other derivatives are subject to valuation methodologies which use unobservable inputs. As the variability of the valuation is not greater than € 1 million in any individual case or collectively, the detail is not disclosed here.

Visa Inc. Series B Preferred Stock

In June 2016, the Group received Series B Preferred Stock in Visa Inc. with a fair value of € 65 million as part consideration for its holding of shares in Visa Europe. The preferred stock is convertible into Class A Common Stock of Visa Inc. over time, with partial conversions having occurred in 2020 and 2022. The remaining conversion is subject to certain Visa Europe litigation risks that may affect the ultimate conversion rate. In addition, the stock, being denominated in US dollars, is subject to foreign exchange risk.

- **Valuation technique:** Quoted market price of Visa Inc. Class A Common Stock to which a discount has been applied for the illiquidity and the conversion rate variability of the preferred stock of Visa Inc. 71% haircut (2021: 69%). This was converted at the year end exchange rate.
- **Unobservable input:** Final conversion rate of Visa Inc. Series B Preferred Stock into Visa Inc. Class A Common Stock.
- **Range of estimates:** Estimates range from (a) no discount for conversion rate variability with a discount for illiquidity only; to (b) 90% discount for conversion rate variability.

Loans and advances to customers measured at FVTPL

The fair value measurement sensitivity to unobservable collateral values and interest rates ranges from negative € 9 million to positive € 8 million at 31 December 2022 (2021: negative € 2 million to positive € 21 million).

Fair value is applied in respect of secondary facilities arising on restructured loans subject to forbearance measures, on the likelihood that additional cash flows, in excess of their primary facilitates, will be received from customers. Given the significant uncertainty with regard to such cash flows, the Group does not attribute a fair value unless it is reasonably certain that this value will be realised.

Sensitivity of Level 3 measurements

The implementation of valuation techniques involves a considerable degree of judgement. While the Group believes its estimates of fair value are appropriate, the use of different measurements or assumptions could lead to different fair values. The following table sets out the impact of using reasonably possible alternative assumptions in the valuation methodology at 31 December 2022 and 2021:

				2022
				Level 3
	Effect on income statement		Effect on other comprehensive income	
	Favourable	Unfavourable	Favourable	Unfavourable
	€ m	€ m	€ m	€ m
Classes of financial assets				
Derivative financial instruments	6	(11)	—	—
Investment securities – equity	24 (1)	(15) (1)		
Loans and advances to customers measured at FVTPL	8	(9)	—	—
Total	38	(35)	—	—
Classes of financial liabilities				
Derivative financial liabilities	1	(2)	—	—
Total	1	(2)	—	—

(1) Relates to a significant equity investment, the carrying value of which was € 22 million at 31 December 2022. Sensitivity information has not been provided for other equities as the portfolio comprises several investments, none of which is individually material.

44 Fair value of financial instruments *continued*

Sensitivity of Level 3 measurements continued

	2021			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable	Unfavourable	Favourable	Unfavourable
	€ m	€ m	€ m	€ m
Classes of financial assets				
Derivative financial instruments	14	(27)	—	—
Investment securities – equity	48 (1)	(34) (1)	—	—
Loans and advances to customers measured at FVTPL	21	(2)	—	—
Total	83	(63)	—	—
Classes of financial liabilities				
Derivative financial liabilities	—	(1)	—	—
Total	—	(1)	—	—

(1) Relates to a significant equity investment, the carrying value of which was € 50 million at 31 December 2021. Sensitivity information has not been provided for other equities as the portfolio comprises several investments, none of which is individually material.

Day 1 gain or loss:

No difference existed between the fair value at initial recognition of financial instruments and the amount that was determined at that date using a valuation technique incorporating significant unobservable data.

45 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition:

	2022	2021
	€ m	€ m
Cash and balances at central banks	**38,138**	42,654
Loans and advances to banks(1)(2)	**1,178**	903
Total	**39,316**	43,557

(1) Included in 'Loans and advances to banks' total of € 1,502 million (2021: € 1,323 million) set out in note 18.
(2) Includes € 5 million relating to restricted balances held in trust in respect of certain payables which are included in 'Other liabilities' (note 33).

Cash and balances at central banks (net of ECL allowance of Nil) comprise:

	2022	2021
	€ m	€ m
Central Bank of Ireland	**32,573**	35,222
Bank of England	**4,584**	6,555
Federal Reserve Bank of New York	**408**	331
Other (cash on hand)	**573**	545
Total	**38,138**	42,654

The Group is required to hold minimum reserve balances with the Central Bank of Ireland.

The Group is also required by law to maintain reserve balances with the Bank of England. At 31 December 2022, these amounted to € 261 million (2021: € 361 million).

There are certain regulatory restrictions on the ability of subsidiaries to transfer funds to the parent company in the form of cash dividends, loans or advances. The impact of such restrictions is not expected to have a material effect on the Group's ability to meet its cash obligations.

46 Statement of cash flows

Non-cash and other items included in profit before taxation

Non-cash items	2022 € m	2021 € m
Loss on disposal of property	**1**	3
Net gain on derecognition of financial assets measured at amortised cost	**(18)**	(1)
Dividends received from equity investments	**(2)**	(3)
Investments accounted for using the equity method	**(37)**	(21)
Net credit impairment charge(writeback)	**52**	(163)
Change in other provisions	**87**	183
Retirement benefits – defined benefit expense	**4**	3
Depreciation, amortisation and impairment	**341**	327
Interest on subordinated liabilities and other capital instruments	**41**	41
Interest on debt securities – MREL	**146**	97
(Loss)/gain on disposal of investment securities	**7**	(18)
(Gain)/Loss on termination of hedging swaps	**(4)**	12
Amortisation of premiums and discounts	**50**	50
Net gain on equity investments at FVTPL	**(88)**	(58)
Net loss on loans and advances to customers at FVTPL	**16**	12
Change in prepayments and accrued income	**—**	(81)
Change in accruals and deferred income	**53**	7
Effect of exchange translation and other adjustments(1)	**(315)**	(101)
Total non-cash items	**334**	289
Contributions to defined benefit pension schemes	**(24)**	(22)
Dividends received on equity investments	**2**	3
Total other items	**(22)**	(19)
Non-cash and other items for the year ended 31 December	**312**	270

Change in operating assets(1)	2022 € m	2021 € m
Change in trading portfolio financial assets	**—**	3
Change in derivative financial instruments	**(149)**	(2)
Change in loans and advances to banks	**69**	45
Change in loans and advances to customers	**(3,221)**	1,022
Change in securities financing	**(2,343)**	(3,415)
Change in other assets	**21**	35
	(5,623)	(2,312)

Change in operating liabilities(1)	2022 € m	2021 € m
Change in deposits by central banks and banks	**(9,852)**	5,859
Change in customer accounts	**10,045**	9,923
Change in securities financing	**851**	(165)
Change in trading portfolio liabilities	**2**	—
Change in debt securities in issue	**(750)**	(500)
Change in notes in circulation	**(56)**	(49)
Change in other liabilities	**(237)**	276
	3	15,344

(1) The impact of foreign exchange translation for each line of the statement of financial position is removed in order to show the underlying cash impact.

47 Related party transactions

Related parties in the Group include the parent company, AIB Group plc, subsidiary undertakings including their non-controlling interests, associated undertakings, joint arrangements, post-employment benefits, Key Management Personnel and connected parties. The Irish Government is also considered a related party by virtue of its effective control of the Group. The immediate holding company and controlling party is AIB Group plc with its registered office at 10 Molesworth Street, Dublin 2.

(a) Transactions with subsidiary undertakings

AIB Group plc is the ultimate parent company of the Group. Banking transactions between the parent company and its subsidiaries and between subsidiaries are entered into in the normal course of business. These include loans, deposits, provision of derivative contracts, foreign currency contracts and the provision of guarantees on an 'arm's length basis'. Furthermore, pricing arrangements between Allied Irish Banks, p.l.c. and certain Irish subsidiaries, and between certain Irish subsidiaries reflect revised OECD guidelines on transfer pricing, which are the internationally accepted principles in this area, and take account of the functions, risks and assets involved. Details of related party transactions and balances between AIB Group plc and its subsidiaries are set out in note k to AIB Group plc Company financial statements. In accordance with IFRS 10 *Consolidated Financial Statements* transactions between the parent company and its subsidiaries and between subsidiaries have been eliminated on consolidation.

(b) Associated undertakings and joint arrangements

From time to time, the Group provides certain banking and financial services for associated undertakings. These transactions are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and do not involve more than the normal risk of collectability or present other unfavourable features. Details of loans to associates are set out in note 19 to the consolidated financial statements.

(c) Non-controlling interests

The Group has accepted a deposit from the non-controlling interests in a subsidiary which is detailed in note 30.

(d) Provision of banking and related services and funding to Group Pension schemes

The Group provides certain banking and financial services including money transmission services for the AIB Group Pension schemes. Such services are provided in the ordinary course of business, on substantially the same terms, including interest rates, as those prevailing at the time for comparable transactions with other persons.

During 2013, the Group established a pension funding partnership, AIB PFP Scottish Limited Partnership ("SLP") in the UK. Following this, a subsidiary of Allied Irish Banks, p.l.c. transferred loans to the SLP for the purpose of ring-fencing the repayments of these loans to fund future deficit payments of the AIB UK Defined Benefit Pension Scheme (note 42).

During 2012, the Group agreed to make certain contributions to the pension scheme which were settled through the transfer to the AIB Group Irish Pension Scheme of interests in a special purpose entity owning loans and advances previously transferred at fair value from the Group. A subsidiary of the Group was appointed as a service provider for the loans and advances transferred in return for a servicing fee at a market rate (note 42).

47 Related party transactions *continued*

(e) IAS 24 Related Party Disclosures

The following disclosures are made in accordance with the provisions of IAS 24 *Related Party Disclosures* ("IAS 24"). Under IAS 24, Key Management Personnel ("KMP") are defined as comprising Executive and Non-Executive Directors together with Senior Executive Officers, namely, the members of the Executive Committee. As at 31 December 2022, the Group had 25 KMP (2021: 24 KMP).

(i) Compensation of Key Management Personnel

Details of compensation paid to KMP are provided below. The figures shown include the figures separately reported in respect of Directors' remuneration on pages 113 to 114.

	2022 **€ m**	2021 € m
Short term compensation(1)	**7.1**	5.7
Post-employment benefits(2)	**0.9**	0.8
Termination benefits	**—**	—
Total	**8.0**	6.5

(1) Comprises (a) in the case of Executive Directors and Senior Executive Officers: salary and a non-pensionable cash allowance in lieu of company car, medical insurance and other contractual benefits including, where relevant, payment in lieu of notice, and (b) in the case of Non-Executive Directors: Directors' fees and travel and subsistence expenses incurred in the performance of the duties of their office, which are paid by the Group.

(2) Comprises payments to defined benefit or defined contribution pension schemes, in accordance with actuarial advice, to provide post-retirement pensions. The Group's defined benefit pension schemes closed to future accrual with effect from 31 December 2013 and all employee pension benefits have accrued on the basis of defined contributions since that date.

(ii) Transactions with Key Management Personnel

Loans to KMP and their close family members are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons of similar standing not connected with the Group, and do not involve more than the normal risk of collectability or present other unfavourable features. Loans to Directors and Senior Executive Officers are made on terms available to other employees in the Group generally, in accordance with established policy, within limits set on a case by case basis.

The aggregate amounts outstanding, in respect of all loans, quasi loans and credit transactions between the Group and KMP, as defined above, together with members of their close families and entities controlled by them are shown in the following table:

Loans outstanding	**2022** **€ m**	2021 € m
At 1 January	**1.51**	1.56
Loans issued during the year	**—**	—
Loan repayments during the year/change of KMP/other	**0.05**	(0.05)
At 31 December	**1.56**	1.51

Total commitments outstanding refers to the total of any undrawn amounts on credit cards and/or overdraft facilities provided to KMP. Total commitments outstanding as at 31 December 2022 were € 0.13 million (2021: € 0.13 million).

Deposit and other credit balances held by KMP and their close family members as at 31 December 2022 amounted to € 2.48 million (2021: € 3.21 million).

47 Related party transactions *continued*

(f) Companies Act 2014 disclosures

(i) Loans to Directors

The following information is presented in accordance with the Companies Act 2014. For the purposes of the Companies Act disclosures, Director means the Board of Directors and any past Directors who are Directors during the relevant period.

There were 16 Directors in office during the year, 6 of whom availed of credit facilities (2021: 6). Of the Directors who availed of credit facilities, 3 had balances outstanding at 31 December 2022 (2021: 3 of 6).

Details of transactions with Directors for the year ended 31 December 2022 are as follows:

	Balance at 31 December 2021	Amounts advanced during 2022	Amounts repaid during 2022	Balance at 31 December 2022
	€ 000	€ 000	€ 000	€ 000
Tanya Horgan				
Loans	55	—	8	47
Overdraft/credit card*	—	—	—	—
Total	55	—	8	47
Interest charged during the year				2
Maximum debit balance during the year**				55
Colin Hunt				
Loans	691	—	49	642
Overdraft/credit card*	12	—	—	16
Total	703	—	49	658
Interest charged during the year				8
Maximum debit balance during the year**				714
Carolan Lennon				
Loans	—	—	—	—
Overdraft/credit card*	8	—	—	10
Total	8	—	—	10
Interest charged during the year				—
Maximum debit balance during the year**				16

* Amounts advanced and repaid are not shown for overdraft/credit card facilities as these are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).

** The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

Ms Helen Normoyle and Mr Fergal O’Dwyer held overdraft facilities which were not used during the year. Ms Ann O’Brien held a credit card facility with the Group, which had a Nil opening and closing balance, and a maximum debit balance of less than € 1,000 in the period.

Ms Anik Chaumartin, Mr Donal Galvin, Mr Basil Geoghegan, Ms Sandy Kinney Pritchard, Mr Andy Maguire, Ms Elaine MacLean, Mr Brendan McDonagh, Mr Jim Pettigrew, Mr Jan Sijbrand and Mr Raj Singh had no credit facilities with the Group in 2022.

All facilities are performing to their terms and conditions. An expected credit loss allowance is held for all loans and advances. Accordingly, a total expected credit loss allowance of under €1,000 was held on the above facilities at 31 December 2022.

47 Related party transactions *continued*

(f) Companies Act 2014 disclosures

(i) Loans to Directors *(continued)*

Details of transactions with Directors for the year ended 31 December 2021 are as follows:

	Balance at 31 December 2020	Amounts advanced during 2021	Amounts repaid during 2021	Balance at 31 December 2021
	€ 000	€ 000	€ 000	€ 000
Tanya Horgan				
Loans	59	—	4	55
Overdraft/credit card*	—	—	—	—
Total	59	—	4	55
Interest charged during the year				2
Maximum debit balance during the year**				59
Colin Hunt				
Loans	741	—	50	691
Overdraft/credit card*	12	—	—	12
Total	753	—	50	703
Interest charged during the year				5
Maximum debit balance during the year**				760
Carolan Lennon				
Loans	—	—	—	—
Overdraft/credit card*	13	—	—	8
Total	13	—	—	8
Interest charged during the year				—
Maximum debit balance during the year**				15

* Amounts advanced and repaid are not shown for overdraft/credit card facilities as these are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).

**The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

Ms Helen Normoyle and Mr Fergal O'Dwyer held overdraft facilities which were not used during the year. Ms Ann O'Brien held a credit card facility with the Group, which had a Nil opening and closing balance, and a maximum debit balance of less than € 100 in the period.

Ms Anik Chaumartin, Mr Donal Galvin, Mr Basil Geoghegan, Ms Sandy Kinney Pritchard, Mr Andy Maguire, Ms Elaine MacLean, Mr Brendan McDonagh, Mr Jim Pettigrew, Mr Jan Sijbrand and Mr Raj Singh had no credit facilities with the Group in 2021.

All facilities are performing to their terms and conditions. An expected credit loss allowance is held for all loans and advances. Accordingly, a total expected credit loss allowance of under € 500 was held on the above facilities at 31 December 2021.

47 Related party transactions *continued*

(f) Companies Act 2014 disclosures

(ii) Connected persons

The aggregate of loans to connected persons of Directors, in office during the year, at 31 December, as defined in Section 220 of the Companies Act 2014, are as follows (aggregate of 9 persons; 2021: 7 persons):

	Balance at 31 December 2022	Balance at 31 December 2021
	€ 000	€ 000
Loans	**649**	691
Overdraft/credit card*	**8**	8
Total	**657**	699
Interest charged during the year	**13**	15
Maximum debit balance during the year**	**594**	927

An expected credit loss allowance is held for all loans and advances. Accordingly, a total expected credit loss allowance of less than € 500 was held on the above facilities at 31 December 2022.

* Amounts advanced and repaid are not shown for overdraft/credit card facilities as these are revolving in nature (i.e. they may be drawn, repaid and redrawn up to their limit over the course of the year).

** The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

(iii) Aggregate balance of loans and guarantees held by Directors and their connected persons

The aggregate balance of loans and guarantees held by Directors and their connected persons as at 31 December 2022 represents c. 0.01% of the net assets of the Group (2021: c. 0.01%).

(g) Summary of relationship with the Irish Government

The Irish Government is recognised as a related party under IAS 24 as it is in a position to exercise control over the Group.

Relationship Framework

In order to comply with contractual commitments imposed on the Group in connection with its recapitalisation by the Irish State and with the requirements of EU state aid applicable in respect of that recapitalisation, a Relationship Framework was entered into between the Minister and the Group in March 2012. This provides the framework under which the relationship between the Minister and the Group is governed. The Relationship Framework was amended and restated on 12 June 2017. Furthermore, the AIB Group plc Relationship Framework was put in place on 8 December 2017 in substitution for the Relationship Framework dated 12 June 2017. Under the relationship framework, the authority and responsibility for strategy and commercial policies (including business plans and budgets) and conducting the Group's day-to-day operations rest with the Board and the Group's management team, however the Group remains subject to certain obligations which require advance consultation with or approval by the State.

These obligations relate to, inter alia:
- The composition of the board;
- Declaration and payment of dividends;
- Restrictions on various types of remuneration;
- Buy-backs or redemptions by the Group of its shares; and
- Material acquisitions/disposals.

The relationship of the Irish Government with the Group is outlined under the following headings:

- **Ordinary shares**

  At 31 December 2022, the State's shareholding in the Company has reduced to 1,520,799,849 ordinary shares (56.89%) following a directed buyback and disposals as part of a pre-arranged trading plan. At 31 December 2021, the State held 1,930,436,543 ordinary shares (71.12%).

- **Issue of warrants to the Minister for Finance**

  In 2017, the Group issued warrants to the Minister to subscribe for 271,166,685 ordinary shares. Following the reduction in issued share capital during the year, these warrants now represent 10.14% of the issued share capital. For further details see note 36.

47 Related party transactions *continued*

(g) Summary of relationship with the Irish Government continued

– Guarantee schemes

European Communities (Deposit Guarantee Scheme) Regulations 2015

Eligible deposits (including credit balances in current accounts, demand deposit accounts and term deposit accounts) of up to € 100,000 per depositor per credit institution are covered under this scheme. The scheme is administered by the CBI and is funded by the credit institutions covered by the scheme.

Strategic Banking Corporation of Ireland Scheme

The Group through its participation in the Strategic Banking Corporation of Ireland (“SBCI”) Support loan Schemes (the ‘Schemes’) benefits from a Government guarantee against losses on qualifying finance agreements on amounts advanced under the Schemes. At 31 December 2022, c € 552 million is outstanding across individual schemes of which the Future Growth Loan Scheme; Brexit/ COVID-19 Working Capital Loan Schemes and the COVID-19 Credit Guarantee Scheme benefit from an 80% Government guarantee.

Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009

The Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 was one of various stabilisation measures implemented by the State to support the Irish banking system including the Group. The Group no longer has any guaranteed liabilities under the scheme however, certain of the covenants in the scheme continue to apply to the Group including reporting covenants, until the scheme is terminated by the Minister for Finance.

– NAMA

The Group has provided NAMA with a series of indemnities relating to transferred assets. Any indemnity payment would result in an outflow of economic benefit for the Group.

– Funding support

The Group availed of Targeted Long Term Refinancing Operation III (“TLTRO III”) funding from the ECB, through the Central Bank and which was repaid in full in December 2022. See notes 4 and 29 for further details in relation to the Group’s participation in the TLTRO programme.

These facilities, together with other assets and liabilities with Irish Government entity counterparties, are set out below.

– Other transactions with the Irish Government and entities under its control

In addition to the above matters, the Group also enters into other normal banking transactions with the Irish Government, its agencies and entities under its control. This includes transactions with (i) Government related entities, (ii) local government and commercial semi-state bodies and (iii) financial institutions under Irish Government control/significant influence. Other transactions include the payment of taxes, pay related social insurance, local authority rates, and the payment of regulatory fees, as appropriate.

(i) Irish Government and related entities

The following table outlines the amounts outstanding at 31 December 2022 and 2021 with Irish Government and related entities which are considered individually significant (excluding accrued interest). Related entities includes departments of the Irish Government located in the State and embassies, consulates and other institutions of the Irish Government located outside the State. The Post Office Savings Bank (“POSB”) and the National Treasury Management Agency (“NTMA”) are also included.

47 Related party transactions *continued*

(g) Summary of relationship with the Irish Government continued

	2022 **Balance** **€ m**	2021 Balance € m
Assets		
Cash and balances at central banks(1)	**32,573**	35,222
Investment securities(2)	**4,860**	5,875
Liabilities		
Deposits by central banks and banks(3)	**—**	10,000
Customer accounts(4)	**340**	165

(1) Cash and balances at central banks represent the placements which the Group holds with the Central Bank.
(2) Investment securities at 31 December 2022 comprise € 4,860 million (2021: € 5,875 million) in Irish Government securities held in the normal course of business.
(3) This relates to funding received from the ECB through the Central Bank which is detailed under 'Funding Support' above.
(4) Includes Nil (2021: € 20 million) borrowed from the Strategic Banking Corporation of Ireland ("SBCI"), the ordinary share capital of which is owned by the Minister for Finance.

All other balances, both assets and liabilities are carried out in the ordinary course of banking business on normal terms and conditions.

(ii) Local government(1) and Commercial semi-state bodies(2)

During 2022 and 2021, the Group entered into banking transactions in the normal course of business with local government bodies and semi-state bodies. These transactions include the granting of loans and the acceptance of deposits, as well as derivative and clearing transactions. There were no individually significant amounts outstanding in the period with local government or with semi-state bodies.

(1) This category includes local authorities, borough corporations, county borough councils, county councils, boards of town commissioners, urban district councils, non-commercial public sector entities, public voluntary hospitals and schools.
(2) Semi-state bodies is the name given to organisations within the public sector operating with some autonomy. They include commercial organisations or companies in which the State is the sole or main shareholder.

(iii) Financial institutions under Irish Government control/significant influence

The Irish Government has a controlling interest in Permanent tsb plc and also had significant influence over Bank of Ireland. Due to the Group's related party relationship with the Irish Government, balances between these financial institutions and the Group are considered related party transactions in accordance with IAS 24.

The Government controlled entity, Irish Bank Resolution Corporation Limited (In Special Liquidation) which went into special liquidation during 2013, remains a related party for the purpose of this disclosure.

Transactions with these institutions are normal banking transactions entered into in the ordinary course of cash management business under normal business terms. The transactions constitute the short term placing and acceptance of deposits, derivative transactions, investment debt securities and repurchase agreements.

The following balances were outstanding in total to these financial institutions at 31 December 2022 and 2021:

	2022 **€ m**	2021 € m
Assets		
Loans and advances to banks	**1**	1
Investment securities	**35**	85

Irish bank levy

The bank levy is calculated based on each financial institution's Deposit Interest Retention Tax ("DIRT") payment in a base year with 2019 being the base year for 2022. The annual levy paid by the Group for 2022 and reflected in operating expenses (note 11) in the income statement amounted to € 37 million (2021: € 37 million).

(h) Indemnities

The Group has indemnified the Directors of Allied Irish Banks Pensions Limited and AIB DC Pensions (Ireland) Limited, the trustees of the Group's Ireland defined benefit pension scheme and defined contribution pension scheme, respectively, against any actions, claims or demands arising out of their actions as Directors of the trustee companies, other than by reason of wilful default.

48 Employees

The following table shows the geographical analysis of average employees for 2022 and 2021:

Average number of staff (Full time equivalents)	**2022**	2021
Ireland	**8,517**	8,188
United Kingdom	**672**	922
United States of America	**32**	44
Total	**9,221**	9,154

The following table shows the segmental analysis of average employees for 2022 and 2021:

	2022	2021
Retail Banking	**4,194**	4,376
Capital Markets	**1,016**	766
AIB UK	**605**	844
Group(1)	**3,406**	3,168
Total	**9,221**	9,154

(1) Group comprises wholesale treasury activities and Group control and support functions. Treasury manages the Group's liquidity and funding positions and provides customer treasury services and economic research. The Group control and support functions in the period included Technology, Operations, Finance, Risk, Legal, Corporate Governance & Customer Care, Human Resources, Sustainability and Corporate Affairs, Enterprise Development and Group Internal Audit.

The average number of employees for 2022 and 2021 set out above excludes employees on career breaks and other unpaid long term leaves.

Actual full time equivalent numbers at 31 December 2022 were 9,590 (2021: 8,916).

49 Regulatory compliance

During the years ended 31 December 2022 and 2021, the Group and its regulated subsidiaries complied with their externally imposed capital ratios.

50 Financial and other information

	2022 **%**	2021 %
Operating ratios		
Operating expenses/operating income	**70.8**	84.4
Other income/operating income	**25.9**	24.5

Rates of exchange	**2022**	2021
€/$*		
Closing	**1.0666**	1.1326
Average	**1.0531**	1.1831
€/£*		
Closing	**0.8869**	0.8403
Average	**0.8527**	0.8598

*Throughout this report, US dollar is denoted by $ and Pound sterling is denoted by £.

	Assets		**Liabilities and equity**	
Currency Information	**2022** **€ m**	2021 € m	**2022** **€ m**	2021 € m
Euro	**108,236**	103,920	**109,514**	105,495
Other	**21,516**	23,955	**20,238**	22,380
	129,752	127,875	**129,752**	127,875

51 Dividends

Final dividends are not accounted for until they have been approved at the Annual General Meeting of shareholders or in the case of the interim dividend, when they become irrevocable having already been approved for payment by the Board of Directors. Interim dividends may be cancelled at any time prior to the actual payment.

A final dividend for the year ended 31 December 2021 of 4.5 cent per ordinary share, amounting in total to € 122 million, was approved at the Annual General Meeting on 5 May 2022 and subsequently paid on 13 May 2022.

52 Non-adjusting events after the reporting period

Ulster Bank tracker mortgage portfolio

On 1 June 2022, the Group confirmed that Allied Irish Banks, p.l.c had entered into a binding agreement with NatWest Group plc and Ulster Bank Ireland DAC for the acquisition of a performing Ulster Bank tracker (and linked) mortgage portfolio of c.€ 5.7 billion for a consideration of c. € 5.4billion. Under the agreement, the Group acquires an economic interest in the mortgage portfolio from 1 September 2022. The agreement received CCPC approval in January 2023 with formal completion expected in 2023.

The final consideration payable depends on movements in the portfolio up to completion. As at 31 December 2022 the eligible portfolio of loans that are subject to the agreement amounted to € 5.4 billion. Additional movements are anticipated in the portfolio up to completion.

As the Group committed to purchase these loans under a contract, which is not considered a regular-way transaction, the loans are not recognised until the acquisition contract is settled. Having received CCPC approval, the agreement to purchase the loans becomes unconditional and therefore in 2023 the Group will recognise a forward contract measured at fair value which will reflect changes in valuation parameters since the original transaction pricing as well as the Group’s economic interest in the acquired portfolio from 1 September 2022 to completion.

Ulster Bank corporate and commercial loans

Subsequent to the year end, the Group has acquired performing loans of € 0.2 billion with a further € 1.0 billion of eligible loans expected to be acquired on a phased basis in 2023. Additional movements are anticipated in the portfolio up to completion.

53 Approval of financial Statements

The financial statements were approved by the Board of Directors on 7 March 2023.

AIB GROUP PLC COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 December 2022

	Notes	2022 € m	2021 € m
Assets			
Loans and advances to banks – subsidiary	d	**8,022**	5,547
Investment in subsidiary undertaking	e	**13,385**	10,194
Prepayments and accrued income		**98**	53
Total assets		**21,505**	15,794
Liabilities			
Debt securities in issue	f	**6,520**	4,044
Subordinated liabilities and other capital instruments	g	**1,500**	1,500
Accruals and deferred income		**90**	68
Total liabilities		**8,110**	5,612
Equity			
Share capital	h	**1,671**	1,696
Merger reserve	i	**5,646**	2,364
Reserves		**4,953**	4,997
Total shareholders' equity		**12,270**	9,057
Other equity interests		**1,125**	1,125
Total equity		**13,395**	10,182
Total liabilities and equity		**21,505**	15,794

The Company recorded a profit after taxation of € 3,491 million for the year ended 31 December 2022 (2021: profit € 2,769 million).

Jim Pettigrew Chair	Colin Hunt Chief Executive Officer	Donal Galvin Chief Financial Officer	Conor Gouldson Group Company Secretary

AIB GROUP PLC COMPANY STATEMENT OF CHANGES IN EQUITY

for the financial year ended 31 December 2022

						2022
	Attributable to equity holders of the parent					
	Share capital	Other equity interests	Merger reserve	Revenue reserves	Capital redemption reserves	Total
	€ m	€ m	€ m	€ m	€ m	€ m
At 1 January 2022	1,696	1,125	2,364	4,997	—	10,182
Total comprehensive income for the year						
Profit after tax	—	—	—	3,491	—	3,491
Other comprehensive income	—	—	—	—	—	—
Total comprehensive income for the year	—	—	—	3,491	—	3,491
Transactions with owners, recorded directly in equity						
Dividends paid on ordinary shares (note 51 to the consolidated financial statements)	—		—	(122)	—	(122)
Distributions paid to other equity interests (note 37 to the consolidated financial statements)	—	—	—	(65)	—	(65)
Buyback of ordinary shares	(25)	—	—	(91)	25	(91)
Transfer between merger and revenue reserves (note i)	—	—	3,282	(3,282)	—	—
Total contributions by and distribution to owners	(25)	—	3,282	(3,560)	25	(278)
At 31 December 2022	1,671	1,125	5,646	4,928	25	13,395

					2021
	Attributable to equity holders of the parent				
	Share capital	Other equity interests	Merger reserve	Revenue reserves	Total
	€ m	€ m	€ m	€ m	€ m
At 1 January 2021	1,696	1,125	—	4,657	7,478
Total comprehensive income for the year					
Loss after tax	—	—	—	2,769	2,769
Other comprehensive income	—	—	—	—	—
Total comprehensive income for the year	—	—	—	2,769	2,769
Transactions with owners, recorded directly in equity					
Issue of Additional Tier 1 Securities (note j)	—	—	—	—	—
Distributions paid to other equity interests (note 37 to the consolidated financial statements)	—	—	—	(65)	(65)
Transfer between merger and revenue reserves (note i)	—	—	2,364	(2,364)	—
Total contributions by and distributions to owners	—	—	2,364	(2,429)	(65)
At 31 December 2021	1,696	1,125	2,364	4,997	10,182

AIB GROUP PLC COMPANY STATEMENT OF CASH FLOW

for the financial year ended 31 December 2022

	2022 **€ m**	2021 € m
Cash flows from operating activities		
Profit before taxation for the year	**3,491**	2,769
Adjustments for:		
– Non-cash and other items		
Dividend income	**(142)**	—
Distributions from Additional Tier 1 Securities issued by subsidiary	**(67)**	(67)
Net credit impairment charge	**—**	—
Interest on subordinated liabilities and other capital instruments	**38**	38
Interest on debt securities – MREL	**146**	97
Change in prepayments and accrued income	**(44)**	(11)
Change in accruals and deferred income	**(17)**	(3)
Reversal of impairment of subsidiary undertaking (note e)	**(3,282)**	(2,707)
Other income	**(3)**	—
	(3,371)	(2,653)
– Change in operating assets		
Change in loans and advances to banks – subsidiary	**(2,385)**	(750)
Net cash outflow from operating activities	**(2,265)**	(634)
Cash flows from investing activities		
Dividends received from subsidiary	**142**	—
Buyback of ordinary shares by subsidiary	**91**	—
Distributions received from Additional Tier 1 Securities issued by subsidiary	**67**	67
Net cash inflow/(outflow) from investing activities	**300**	67
Cash flows from financing activities		
Proceeds on issue of debt securities – MREL (note f)	**3,231**	750
Dividends paid on ordinary shares	**(122)**	—
Buyback of ordinary shares	**(91)**	—
Repurchase of debt securities	**(844)**	—
Distributions paid to other equity interests	**(65)**	(65)
Interest paid on debt securities – MREL	**(108)**	(97)
Interest paid on subordinated liabilities and other capital instruments	**(38)**	(28)
Net cash inflow from financing activities	**1,963**	560
Change in cash and cash equivalents	**(2)**	(7)
Opening cash and cash equivalents	**5**	12
Closing cash and cash equivalents	**3**	5

The impact of foreign exchange translation for relevant lines in the statement of financial position is removed in order to show the underlying cash impact.

NOTES TO AIB GROUP PLC COMPANY FINANCIAL STATEMENTS

Background

AIB Group plc is a company domiciled in Ireland with its Registered Office address at 10 Molesworth Street, Dublin 2, Ireland. AIB Group plc is registered under the Companies Act 2014 as a public limited company under the company number 594283 and is the holding company of the Group.

a Accounting policies

Where applicable, the accounting policies adopted by AIB Group plc ('the parent company' or 'the Company') are the same as those of the Group as set out in note 1 to the consolidated financial statements.

The parent company financial statements and related notes have been prepared in accordance with International Financial Reporting Standards (collectively "IFRSs") as issued by the IASB and IFRSs as adopted by the EU and applicable for the financial year ended 31 December 2022. They also comply with those parts of the Companies Act 2014 and with the European Union (Credit Institutions: Financial Statements) Regulations 2015 applicable to companies reporting under IFRS.

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

A description of the critical accounting judgements and estimates is set out in note 2 to the consolidated financial statements.

Parent Company Income statement

In accordance with Section 304(2) of the Companies Act 2014, the parent company is availing of the exemption to omit the income statement, statement of comprehensive income and related notes from its financial statements; from presenting them to the Annual General Meeting and from filing them with the Registrar of Companies.

b Operating expenses	**2022** **€ m**	2021 € m
Amounts payable to subsidiary under Master Service Agreement	**8**	8
	8	8

c Auditor's remuneration

The disclosure of auditor's remuneration is in accordance with Section 322 of the Companies Act 2014. This mandates disclosure of remuneration paid/payable to the Group Auditor only (Deloitte Ireland LLP) for services relating to the audit of the Group and relevant subsidiary financial statements. No audit remuneration was paid/payable to the Group Auditor (Deloitte Ireland LLP) or to overseas auditors (excluding Deloitte Ireland LLP) for services relating to the audit of the financial statements of AIB Group plc during the year to 31 December 2022 (2021: Nil).

d Loans and advances to banks	**2022** **€ m**	2021 € m
At amortised cost		
Funds placed with subsidiary, Allied Irish Banks, p.l.c.	**8,025**	5,550
ECL allowance	**(3)**	(3)
	8,022	5,547

Funds placed with subsidiary, Allied Irish Banks, p.l.c.

During 2022, AIB Group plc as the lender entered into loan agreements as described below with Allied Irish Banks, p.l.c. as the borrower, whereby the obligations were unsecured and subordinated. The partial redemption of existing loan agreements also occurred during 2022 and are also described below.

- In November 2022, AIB Group plc lent € 750 million to Allied Irish Banks, p.l.c. repayable on 16 February 2029 with an optional redemption date of 16 February 2028 at a fixed interest rate of 5.875% up to the optional redemption date.
- In October 2022 there was a partial redemption of a $ 750 million loan issued by AIB Group plc in October 2018, maturing in 2023, at an interest rate of 4.875%, leaving a residual of $ 136 million.
- In October 2022, AIB Group plc lent $ 750 million to Allied Irish Banks, p.l.c. repayable on 14 October 2026 with an optional redemption date of 14 October 2025 at a fixed interest rate of 7.708% up to the optional redemption date.
- In July 2022, AIB Group plc lent € 750 million to Allied Irish Banks, p.l.c. repayable on 4 July 2026 with an optional redemption date of 4 July 2025 at a fixed interest rate of 3.75% up to the optional redemption date.
- In April 2022, AIB Group plc lent € 1 billion to Allied Irish Banks, p.l.c. repayable on 4 April 2028 with an optional redemption date of 5 April 2027 at a fixed interest rate of 2.375% up to the optional redemption date.
- In March 2022, there was a partial redemption of a € 500 million loan issued by AIB Group plc in March 2018, maturing in 2023, at an interest rate of 1.625%, leaving a residual of € 253 million.

NOTES TO AIB GROUP PLC COMPANY FINANCIAL STATEMENTS CONTINUED

e Investment in subsidiary undertaking	**2022** **€ m**	2021 € m
At 1 January	**10,194**	7,487
Additions – Additional Tier 1 Securities	**—**	—
Reversal of impairment of equity shares	**3,282**	2,707
Buyback of equity shares	**(91)**	—
At 31 December	**13,385**	10,194

AIB Group plc ('the Company') holds the entire ordinary share capital of Allied Irish Banks, p.l.c. ('the subsidiary') which it acquired in 2017 (2,714,381,237 ordinary shares of nominal value € 0.625 each) and which had a book value at acquisition of € 12,940 million and has a carrying value at 31 December 2022 of € 12,260 million (2021: € 9,069 million). Separately, the Company invested € 1,125 million in Additional Tier 1 Securities (AT1) issued by Allied Irish Banks, p.l.c. These investments follow the Company's own issuance of AT1 securities as detailed in note j.

Allied Irish Banks, p.l.c. is a financial services company incorporated and registered in Ireland with a Registered Office at 10 Molesworth Street, Dublin 2. It is the parent company of a number of subsidiaries, both credit institutions and others, all of which are 100% owned apart from Augmentum Limited in which there are non-controlling interests. It operates predominantly in Ireland, providing a comprehensive range of services to retail customers, as well as business and corporate customers. Allied Irish Banks, p.l.c. and its subsidiaries offer a full suite of products for retail customers, including mortgages, personal loans, credit cards, current accounts, insurance, pensions, financial planning, investments, savings and deposits. Its products for business and corporate customers include finance and loans, business current accounts, deposits, foreign exchange and interest rate risk management products, trade finance products, invoice discounting, leasing, credit cards, merchant services, payments and corporate finance.

Allied Irish Banks, p.l.c. together with its principal subsidiaries in Ireland, AIB Mortgage Bank Unlimited Company and EBS d.a.c. are regulated by the Central Bank of Ireland/Single Supervisory Mechanism. Its principal subsidiary outside the Republic of Ireland, AIB Group (UK) p.l.c., is regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Impairment of equity shares

The Company reviews its equity investment for impairment at the end of each reporting period if there are indications that impairment may have occurred.

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 the Company's financial statements. The recoverable amount is the higher of fair value less costs to sell and value-in-use ("VIU").

The subsidiary's fair value is largely that of the Company since the net assets of the subsidiary are, in effect, the same as those of the Company. Accordingly, AIB Group plc's market capitalisation is a proxy for the fair value of Allied Irish Banks, p.l.c.

At 31 December 2022, the market capitalisation of AIB Group plc was € 9.7 billion. This was higher than the carrying amount of its equity investment in the subsidiary of € 8,978 million. AIB Group plc tested its investment for impairment and reviewed the recoverable amount as determined by a VIU calculation compared with the carrying amount.

The Company uses a discounted cash flow to equity model to derive a VIU, in line with industry practice. Under this approach, recoverable value is determined by the present value of future distributable items which takes into consideration the requirement to retain earnings in line with relevant target capital ratios and risk-weighted assets. Accordingly, the principal inputs to the model are (a) future profitability; (b) risk-weighted asset levels; (c) the discount rate used; and (d) target capital ratios.

The VIU was determined at € 12,260 million which was higher than the carrying amount (i.e. € 8,978 million) and accordingly, the Company recognised a reversal of an earlier impairment amounting to € 3,282 million in 2022. Accordingly, the VIU is higher than the market capitalisation noted above. Amongst the main reasons for this are that the VIU typically looks at a longer time frame which is buoyed by the impact of a move to positive interest rates and also there is limited free-float of the Group's shares. At 31 December 2021, the VIU was calculated at € 9,069 million and an impairment reversal amounting to € 2,707 million was recognised. Following the share buyback of € 91 million in May 2022, the carrying value at 31 December 2022 prior to impairment reversal was € 8,978 million.

Basis used to calculate recoverable amount

In determining VIU, the Company used discounted cash flow projections attributable to equity shareholders. These projections were the output arising from the recent three year Strategic Plan (2023 to 2025) approved by the Board. This output from the Plan will be used by the Company on an on-going basis during the three year planning cycle. The Strategic Plan involved significant judgements which were subject to review and validation at a number of levels of governance and is the current best estimate of the expected cash flows over the planning period. For cash flows beyond the planning period, the Company extrapolated into perpetuity the year 3 expected cash flows as a base, using a long term growth rate to derive a terminal value. Risk weighted assets are assumed to grow at the same rate as that for long term profit growth.

e Investment in subsidiary undertaking *continued*
Basis used to calculate recoverable amount continued

The Company used the following key assumptions in the VIU calculation:
- Long term profit/risk-weighted asset growth rate after 2025 of 2%;
- Discount rate of 12.5%; and
- Common equity Tier 1 trending to 14.0% (Target >13.5%).

Future profitability and growth rates are dependent on several factors, including the economic environment both local and international, and the impact of regulatory requirements on the banking industry and the continuing developments in the financial services sector. Profitability and growth were reassessed in the annual planning exercise covering the period 2023 to 2025 undertaken by the Group in the second half of 2022. Profitability levels underpinning the plan have been revised upwards compared to last year given the changing banking landscape and evolving operating environment.

The discount rate to be used in future periods may increase/decrease due to changes to the risk free rate or to the risk premium.

Changes to these inputs may increase or decrease the impairment loss allowance/reversal in future periods.

The following table sets out the sensitivity of the VIU calculation to key input variables. The table reflects the impact of the variables individually and not any interrelationships. It is possible that more than one favourable and/or unfavourable change will occur at the same time.

	31 December 2022			
	Favourable change		Unfavourable change	
	bps	Increase in VIU € m	bps	Decrease in VIU € m
Long term profit/risk-weighted assets growth rate	**100**	**433**	**(100)**	**(345)**
Discount rate	**(100)**	**1,285**	**100**	**(1,069)**

In addition, if year 3 expected cash flows that are used as a base to derive the terminal value were increased/decreased by € 100 million, the VIU calculation would increase by c. € 375 million / decrease by c. € 491 million.

Given the interrelationship of changes set out in the sensitivity table above, the Company estimates that the reasonable possible range of estimates for VIU is € 11,191 million to € 13,545 million.

31 December 2021
The Company recognised an impairment reversal amounting to € 2,707 million, as the VIU calculation at 31 December 2021 amounted to € 9,069 million, which was higher than the carrying value of € 6,362 million. The VIU calculation was based on the output of the three year Strategic Plan (2022 – 2024), long term profit/risk-weighted asset growth rate after 2022 of 2%, discount rate of 10% and Common equity Tier 1 target of 13.5%.

f Debt securities in issue	**2022** **€ m**	2021 € m
Euro Medium Term Note Programme	**4,753**	2,500
Global Medium Term Note Programme	**1,767**	1,544
	6,520	4,044

Analysis of movements in debt securities in issue

	2022 **€ m**	2021 € m
At 1 January	**4,044**	3,175
Issued during the year	**3,231**	750
Repurchased	**(847)**	—
Exchange translation adjustments	**92**	119
At 31 December	**6,520**	4,044

For details of debt securities issued by the Company during 2022, refer to note 31 to the consolidated financial statements.

The instruments issued by AIB Group plc were issued for the purpose of meeting Group MREL requirements.

g Subordinated liabilities and other capital instruments

	2022 **€ m**	2021 € m
Dated loan capital – European Medium Term Note Programme:		
€ 500 million Subordinated Tier 2 Notes due 2029, Callable 2024	**500**	500
€ 1 billion Subordinated Tier 2 Notes due 2031, Callable 2026	**1,000**	1,000
	1,500	1,500

The dated loan capital above issued under the European Medium Term Note Programme, is subordinated in right of payment to the ordinary creditors, including depositors, of the Group.

For details of the above issuances, refer to note 35 to the consolidated financial statements.

h Share capital

The ordinary share capital of AIB Group plc is detailed in note 36 to the consolidated financial statements.

i Merger reserve	**2022** **€ m**	2021 € m
At 1 January	**2,364**	—
Transfer from revenue reserves	**3,282**	2,364
At 31 December	**5,646**	2,364

Under the Scheme of Arrangement (“the Scheme”) approved by the Irish High Court on 6 December 2017 which became effective on 8 December 2017, a new company, AIB Group plc (‘the Company’), was introduced as the holding company of AIB Group. The share capital of Allied Irish Banks, p.l.c., other than a single share owned by AIB Group plc, was cancelled and an equal number of new shares were issued by the Company to the shareholders of Allied Irish Banks, p.l.c. The difference between the carrying value of the net assets of Allied Irish Banks, p.l.c. entity on acquisition by the Company and the nominal value of the shares issued on implementation of the Scheme amounting to € 6,235 million was accounted for as a merger reserve.

In the Company’s financial statements, impairment losses which arise from the Company’s investment in Allied Irish Banks, p.l.c. will be charged to profit or loss and subsequently transferred to the merger reserve in so far as a credit balance remains in the merger reserve.

In 2022, the Company recognised an impairment reversal amounting to € 3,282 million (2021: € 2,707 million) which resulted in a transfer from revenue reserves leaving a balance of € 5,646 million (2021: € 2,364 million) in merger reserves.

j Other equity interests	2022 € m	2021 € m
Issued by AIB Group plc		
€ 500 million Additional Tier 1 Perpetual Contingent Temporary Write-Down Securities issued 2019	**500**	500
€ 625 million Additional Tier 1 Perpetual Contingent Temporary Write-Down Securities issued 2020	**625**	625
Total	**1,125**	1,125

Additional Tier 1 Perpetual Contingent Temporary Write-down Securities

For further details in relation to AT1s issued by the Company, see note 37 to the consolidated financial statements.

k Related party transactions

Related parties of AIB Group plc include subsidiary undertakings including their non-controlling interests, associated undertakings, joint undertakings, post-employment benefit schemes, Key Management Personnel and connected parties. The Irish Government is also considered a related party by virtue of its effective control of AIB Group plc.

Under a Master Service Agreement, Allied Irish Banks, p.l.c. provides various services which include accounting, taxation and administrative services to AIB Group plc (note b).

The following were the principal transactions during 2022 between AIB Group plc (the parent company) and Allied Irish Banks, p.l.c. (the subsidiary company):

Amounts included in AIB Group plc company's income statement in relation to transactions with its immediate subsidiary, Allied Irish Banks, p.l.c. are as follows:

	Notes	2022 € m	2021 € m
Interest income		**192**	138
Operating expenses	b	**8**	8
Ordinary dividend		**142**	—
Distributions received from Additional Tier 1 Securities		**67**	67

Amounts included in AIB Group plc company's statement of financial position in relation to balances with its immediate subsidiary, Allied Irish Banks, p.l.c. are as follows:

	Notes	2022 € m	2021 € m
Investment in subsidiary undertaking	e	**13,385**	10,194
Loans and advances to banks	d	**8,022**	5,547
Prepayments and accrued income		**98**	53
Accruals and deferred income		**—**	17

The following financing transactions occurred between AIB Group plc and its subsidiary, Allied Irish Banks, p.l.c. during 2022.
(a) AIB Group plc lent $ 750 million to Allied Irish Banks, p.l.c. (note d).
(b) AIB Group plc lent € 750 million to Allied Irish Banks, p.l.c. (note d).
(c) AIB Group plc lent € 750 million to Allied Irish Banks, p.l.c. (note d).
(d) AIB Group plc lent € 1 billion to Allied Irish Banks, p.l.c. (note d).

l Credit risk information

The following table sets out the maximum exposure to credit risk for financial assets all of which are carried at amortised cost(1) at 31 December 2022 and 2021:

Maximum exposure to credit risk	2022 Total € m	2021 Total € m
Loans and advances to banks	**8,022**	5,547
Included elsewhere:		
Accrued interest	**98**	53
Total	**8,120**	5,600

(1) All amortised cost items are loans and advances which are in a 'held to collect' business model.

NOTES TO AIB GROUP PLC COMPANY FINANCIAL STATEMENTS CONTINUED

m Liquidity and funding risk

Financial assets and financial liabilities by contractual residual maturity

The following table analyses financial assets and financial liabilities by contractual residual maturity at 31 December 2022 and 2021:

						2022
	On demand	**<3 months but not on demand**	**3 months to 1 year**	**1–5 years**	**Over 5 years**	**Total**
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Financial assets						
Loans and advances to banks[1]	**3**	**253**	**128**	**4,391**	**3,250**	**8,025**
Other financial assets	**—**	**98**	**—**	**—**	**—**	**98**
	3	**351**	**128**	**4,391**	**3,250**	**8,123**
Financial liabilities						
Debt securities in issue[2]	**—**	**253**	**128**	**4,391**	**1,750**	**6,522**
Subordinated liabilities and other capital instruments	**—**	**—**	**—**	**—**	**1,500**	**1,500**
Other financial liabilities	**90**	**—**	**—**	**—**	**—**	**90**
	90	**253**	**128**	**4,391**	**3,250**	**8,112**

						2021
	On demand	<3 months but not on demand	3 months to 1 year	1–5 years	Over 5 years	Total
	€ m	€ m	€ m	€ m	€ m	€ m
Financial assets						
Loans and advances to banks[1]	5	—	—	3,295	2,250	5,550
Other financial assets	—	53	—	—	—	53
	5	53	—	3,295	2,250	5,603
Financial liabilities						
Debt securities in issue[2]	—	—	—	3,295	750	4,045
Subordinated liabilities and other capital instruments	—	—	—	—	1,500	1,500
Other financial liabilities	68	—	—	—	—	68
	68	—	—	3,295	2,250	5,613

(1) Shown gross of expected credit losses.
(2) Shown gross of transaction costs.

SHAREHOLDER INFORMATION

Internet-based Shareholder Services

Ordinary Shareholders with access to the internet may:

- register for electronic communications on the following link, www.computershare.com/register/ie;
- view any outstanding payments, change your address and view your shareholding by signing into Investor Centre on www.computershare.com/ie/InvestorCentre. You will need your unique user ID and password which you created during registration, or register at www.computershare.com/ie/investor/register to become an Investor Centre member. To register you will be required to enter the name of the company in which you hold shares, your Shareholder Reference Number ("SRN"), your family or company name and security code (provided on screen); and
- download standard forms required to initiate changes in details held by the Registrar on the Investor Centre accessed above or via the Investor Relations section of AIB's website at www.aib.ie/investorrelations, clicking on the Shareholder Information and Personal Shareholder Information option, and following the on-screen instructions.

Shareholders may also use AIB's website to access the Company's Annual Financial Report.

Stock Exchange Listings

AIB Group plc is an Irish registered company. Its ordinary shares are traded on the primary listing segment of the official list of Euronext Dublin and the premium listing segment of the Official List of the London Stock Exchange.

Registrar & Shareholder Enquiries

The Company's Registrar for shareholder enquiries is:

Computershare Investor Services (Ireland) Ltd.,
3100 Lake Dr, Citywest Business Campus,
Dublin 24, D24 AK82
Telephone: +353-1-247 5411. Facsimile: +353-1-216 3151
Website: www.computershare.com or www.investorcentre.com/ie/contactus

Major shareholdings

The issued share capital of the AIB Group plc is 2,673,428,473 ordinary shares of € 0.625 each.

As of 7 March 2023, the Minister for Finance of Ireland holds 1,495,196,966 ordinary shares representing 55.93% of the total voting rights attached to issued share capital.

Financial calendar

Annual General Meeting: 4 May 2023, at 10 Molesworth Street, Dublin 2.

Interim results

The unaudited Half-Yearly Financial Report 2023 will be announced on 28 July 2023 and will be available on the Company's website – www.aib.ie.

FORWARD LOOKING STATEMENT

This document contains certain forward looking statements with respect to the financial condition, results of operations and business of AIB Group and certain of the plans and objectives of the Group. These forward looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward looking statements sometimes use words such as ‘aim’, ‘anticipate’, ‘target’, ‘expect’, ‘estimate’, ‘intend’, ‘plan’, ‘goal’, ‘believe’, ‘may’, ‘could’, ‘will’, ‘seek’, ‘continue’, ‘should’, ‘assume’, or other words of similar meaning. Examples of forward looking statements include, among others, statements regarding the Group’s future financial position, capital structure, Government shareholding in the Group, income growth, loan losses, business strategy, projected costs, capital ratios, estimates of capital expenditures, and plans and objectives for future operations. Because such statements are inherently subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward looking information. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward looking statements. These are set out in the Principal risks on pages 23 to 25 in the 2022 Annual Financial Report. In addition to matters relating to the Group’s business, future performance will be impacted by the Group's ability along with governments and other stakeholders to measure, manage and mitigate the impacts of climate change effectively, the impact of higher inflation on customer sentiment and by Irish, UK and wider European and global economic and financial market considerations. Future performance will further be impacted by the direct and indirect consequences of the Russia-Ukraine War on European and global macroeconomic conditions and any enduring effects of the COVID-19 pandemic. Any forward looking statements made by or on behalf of the Group speak only as of the date they are made.The Group cautions that the list of important factors on pages 23 to 25 of the 2022 Annual Financial Report is not exhaustive. Investors and others should carefully consider the foregoing factors and other uncertainties and events when making an investment decision based on any forward looking statement.

GLOSSARY OF TERMS

Additional Tier 1 Capital	Additional Tier 1 Capital ("AT1") are securities issued by AIB and included in its capital base as fully CRD IV compliant additional tier 1 capital on a fully loaded basis.
Arrears	Arrears relates to interest or principal on a loan which was due for payment, but where payment has not been received. Customers are said to be in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan is unpaid or overdue.
Bank Recovery and Resolution Directive	The Bank Recovery and Resolution Directive ("BRRD") is a European legislative package issued by the European Commission and adopted by EU Member States. The BRRD introduces a common EU framework for how authorities should intervene to address banks which are failing or are likely to fail. The framework includes early intervention and measures designed to prevent failure and in the event of bank failure for authorities to ensure an orderly resolution.
Banking book	A regulatory classification to support the regulatory capital treatment that applies to all exposures which are not in the trading book. Banking book positions tend to be structural in nature and, typically, arise as a consequence of the size and composition of a bank's balance sheet. Examples include the need to manage the interest rate risk on fixed rate mortgages or rate insensitive current account balances. The banking book portfolio will also include all transactions/positions which are accounted for on an interest accruals basis or, in the case of financial instruments, on a hold to collect and sell basis.
Basel III	The third of the Basel Accords, an international business standard that requires financial institutions to maintain enough cash reserves to cover risks incurred by operations.
Basel IV	The fourth of the Basel Accords, an international business standard that requires financial institutions to maintain enough cash reserves to cover risks incurred by operations.
Basis point	One hundredth of a per cent (0.01%), so 100 basis points is 1%. Used in quoting movements in interest rates or yields on securities.
Basis risk	A type of market risk that refers to the possibility that the change in the price of an instrument (e.g. asset, liability, derivative) may not match the change in price of the associated hedge, resulting in losses arising in the Group's portfolio of financial instruments.
Buy-to-let mortgage	A residential mortgage loan approved for the purpose of purchasing a residential investment property.
Capital Requirements Directive	Capital Requirements Directive ("CRD"): Capital adequacy legislation implemented by the European Union and adopted by Member States designed to ensure the financial soundness of credit institutions and certain investment firms and give effect in the EU to the Basel II proposals which came into force on 20 July 2006.
Capital Requirements Directive IV	Capital Requirements Directive IV ("CRD IV"), which came into force on 1 January 2014, comprises a Capital Requirements Directive and a Capital Requirements Regulation which implements the Basel III capital proposals together with transitional arrangements for some of its requirements. The Regulation contains the detailed prudential requirements for credit institutions and investment firms. Requirements Regulation (No. 575/2013) ("CRR") and the Capital Requirements Directive (2013/36/EU).
Collateralised bond obligation/ collateralised debt obligation	A collateralised bond obligation ("CBO")/collateralised debt obligation ("CDO") is an investment vehicle (generally an SPE) which allows third party investors to make debt and/or equity investments in a vehicle containing a portfolio of loans and bonds with certain common features. In the case of synthetic CBOs/CDOs, the risk is backed by credit derivatives instead of the sale of assets (cash CBOs/CDOs).
Commercial paper	Commercial paper is similar to a deposit and is a relatively low-risk, short term, unsecured promissory note traded on money markets and issued by companies or other entities to finance their short-term expenses. In the USA, commercial paper matures within 270 days maximum, while in Europe, it may have a maturity period of up to 365 days; although maturity is commonly 30 days in the USA and 90 days in Europe.
Commercial property	Commercial property lending focuses primarily on the following property segments: a) Apartment complexes; b) Office projects; c) Retail projects; d) Hotels; and e) Selective mixed-use projects and special purpose properties.
Common equity tier 1 capital ("CET 1")	The highest quality form of regulatory capital under Basel III that comprises ordinary shares issued and related share premium, retained earnings and other reserves excluding cash flow hedging reserves, and deducting specified regulatory adjustments.
Common equity tier 1 ratio	Common equity tier 1 ratio – A measurement of a bank's common equity tier 1 capital expressed as a percentage of its total risk weighted assets.

GLOSSARY OF TERMS CONTINUED

Concentration risk	Concentration risk is the risk of loss from lack of diversification, investing too heavily in one industry, one geographic area or one type of security.
Contractual maturity	The period when a scheduled payment is due and payable in accordance with the terms of a financial instrument.
Contractual residual maturity	The time remaining until the expiration or repayment of a financial instrument in accordance with its contractual terms.
Credit default swaps	An agreement between two parties whereby one party pays the other a fixed coupon over a specified term. The other party makes no payment unless a specified credit event, such as a default, occurs, at which time a payment is made and the swap terminates. Credit default swaps are typically used by the purchaser to provide credit protection in the event of default by a counterparty.
Credit derivatives	Financial instruments where credit risk connected with loans, bonds or other risk weighted assets or market risk positions is transferred to counterparties providing credit protection. The credit risk might be inherent in a financial asset such as a loan or might be a generic credit risk such as the bankruptcy risk of an entity.
Credit impaired	Under IFRS 9, these are Stage 3 financial assets where there is objective evidence of impairment and, therefore, considered to be in default. A lifetime ECL is recognised for such assets.
Credit rating	An evaluation of the creditworthiness of an entity seeking to enter into a credit agreement.
Credit risk	The risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.
Credit risk mitigation	Techniques used by lenders to reduce the credit risk associated with an exposure by the application of credit risk mitigants. Examples include: collateral; guarantee; and credit protection.
Credit spread	Credit spread can be defined as the difference in yield between a given security and a comparable benchmark government security, or the difference in value of two securities with comparable maturity and yield but different credit qualities. It gives an indication of the issuer's or borrower's credit quality.
Credit support annex	Credit support annex ("CSA") provides credit protection by setting out the rules governing the mutual posting of collateral. CSAs are used in documenting collateral arrangements between two parties that trade over-the-counter derivative securities. The trade is documented under a standard contract called a master agreement, developed by the International Swaps and Derivatives Association ("ISDA"). The two parties must sign the ISDA master agreement and execute a credit support annex before they trade derivatives with each other.
Credit valuation adjustment	Credit valuation adjustment ("CVA") is an adjustment to the valuation of OTC derivative contracts to reflect the creditworthiness of derivative counterparties.
Criticised	Accounts of lower quality and considered as less than satisfactory are referred to as criticised and include the following:
Criticised watch:	The credit is exhibiting weakness and is deteriorating in terms of credit quality and may need additional attention.
Criticised recovery:	Includes forborne cases that are classified as performing having transitioned from default, but still requires additional management attention to monitor for re-default and continuing improvement in terms of credit quality.
Customer accounts	A liability of the Group where the counterparty to the financial contract is typically a personal customer, a corporation (other than a financial institution) or the government. This caption includes various types of deposits and credit current accounts, all of which are unsecured.
Debt restructuring	This is the process whereby customers in arrears, facing cash flow or financial distress, renegotiate the terms of their loan agreements in order to improve the likelihood of repayment. Restructuring may involve altering the terms of a loan agreement including a partial write down of the balance. In certain circumstances, the loan balance may be swapped for an equity stake in the counterparty.
Debt securities	Assets on the Group's balance sheet representing certificates of indebtedness of credit institutions, public bodies and other undertakings.
Debt securities in issue	Liabilities of the Group which are represented by transferable certificates of indebtedness of the Group to the bearer of the certificates.

GLOSSARY OF TERMS CONTINUED

Default	When a customer breaches a term and/or condition of a loan agreement, a loan is deemed to be in default for case management purposes. Depending on the materiality of the default, if left unmanaged it can lead to loan impairment. Default is also used in a CRD IV context when a loan is greater than 90 days past due and/or the borrower is unlikely to pay his credit obligations. This may require additional capital to be set aside.
Derecognition	The removal of a previously recognised financial asset or financial liability from the Group's statement of financial position.
ECB refinancing rate	The main refinancing rate or minimum bid rate is the interest rate which banks have to pay when they borrow from the ECB under its main refinancing operations.
ECLs	Expected credit loss ("ECLs") – The weighted average of credit losses with the respective risks of a default occurring as the weights.
Eurozone	The eurozone consists of the following nineteen European Union countries that have adopted the euro as their common currency: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia and Spain.
Exposure at default	The expected or actual amount of exposure to the borrower at the time of default.
Exposure value	For on balance sheet exposures, it is the amount outstanding less provisions and collateral held taking into account relevant netting agreements. For off-balance sheet exposures, including commitments and guarantees, it is the amount outstanding less provisions and collateral held taking into account relevant netting agreements and credit conversion factors.
Forbearance	Forbearance is the term used when repayment terms of a loan contract have been renegotiated in order to make these terms more manageable for borrowers. Standard forbearance techniques have the common characteristic of rescheduling principal or interest repayments, rather than reducing them. Standard forbearance techniques employed by the Group include: – interest only; a reduction in the payment amount; a temporary deferral of payment (a moratorium); extending the term of the mortgage; and capitalising arrears amounts and related interest.
Funding value adjustment	Funding value adjustment ("FVA") is an adjustment to the valuation of OTC derivative contracts due to a bank's funding rate exceeding the risk-free rate.
GDP	Gross Domestic Product ("GDP") is a monetary measure of the value of all final goods and services produced in a period of time (quarterly or yearly). GDP estimates are commonly used to determine the economic performance and standard of living of a whole country or region, and to make international comparisons.
Guarantee	An undertaking by the Group/other party to pay a creditor should a debtor fail to do so.
Home loan	A loan secured by a mortgage on the primary residence or second home of a borrower.
Interest rate risk in the banking book (IRRBB)	The current or prospective risk to both the earnings and capital of the Group as a result of adverse movements in interest rates that affect the banking book positions.
Internal Capital Adequacy Assessment Process	Internal Capital Adequacy Assessment Process ("ICAAP"): The Group's own assessment, through an examination of its risk profile from regulatory and economic capital perspectives, of the levels of capital that it needs to hold.
Internal liquidity adequacy assessment process	The Internal Liquidity Adequacy Assessment Processes ("ILAAP") is a key element of the risk management framework for credit institutions. ILAAP is defined in the EBA's SREP Guidelines as "the processes for the identification, measurement, management and monitoring of liquidity implemented by the institution pursuant to Article 86 of Directive 2013/36/EU". It thus contains all the qualitative and quantitative information necessary to underpin the risk appetite, including the description of the systems, processes and methodology to measure and manage liquidity and funding risks.
Internal Ratings Based Approach	The Internal Ratings Based Approach ("IRBA") allows banks, subject to regulatory approval, to use their own estimates of certain risk components to derive regulatory capital requirements for credit risk across different asset classes. The relevant risk components are: Probability of Default ("PD"); Loss Given Default ("LGD"); and Exposure at Default ("EAD").
ISDA Master Agreements	Standardised contracts, developed by the International Swaps and Derivatives Association ("ISDA"), used as an umbrella under which bilateral derivatives contracts are entered into.

GLOSSARY OF TERMS CONTINUED

Leverage ratio	To prevent an excessive build-up of leverage on institutions' balance sheets, Basel III introduces a non-risk-based leverage ratio to supplement the risk-based capital framework of Basel II. It is defined as the ratio of tier 1 capital to total exposures. Total exposures include on-balance sheet items, off-balance sheet items and derivatives, and should generally follow the accounting measure of exposure.
Liquidity Coverage Ratio	Liquidity Coverage Ratio ("LCR"): The ratio of the stock of high quality liquid assets to expected net cash outflows over the next 30 days under a stress scenario. CRD IV requires that this ratio exceeds 100% on 1 January 2018.
Liquidity risk	The risk that Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.
Loan to deposit ratio	This is the ratio of loans and advances expressed as a percentage of customer accounts, as presented in the statement of financial position.
Loan to value	Loan to value ("LTV") is an arithmetic calculation that expresses the amount of the loan as a percentage of the value of security/collateral. A high LTV indicates that there is less of a cushion to protect the lender against collateral price decreases or increases in the loan carrying amount if repayments are not made and interest is capitalised onto the outstanding loan balance.
Loans past due	When a borrower fails to make a contractually due payment, a loan is deemed to be past due. 'Past due days' is a term used to describe the cumulative number of days that a missed payment is overdue. Past due days commence from the close of business on the day on which a payment is due but not received. In the case of overdrafts, past due days are counted once a borrower: • has breached an advised limit; • has been advised of a limit lower than the then current amount outstanding; or • has drawn credit without authorisation. When a borrower is past due, the entire exposure is reported as past due, rather than the amount of any excess or arrears.
Loss Given Default	Loss Given Default ("LGD") is the expected or actual loss in the event of default, expressed as a percentage of 'exposure at default'.
Medium term notes	Medium term notes ("MTNs") are notes issued by the Group across a range of maturities under the European Medium Term Notes ("EMTN") Programme.
Minimum requirements for own funds and eligible liabilities (MREL)	A European Union wide requirement under the Bank Recovery and Resolution Directive for all European banks and investment banks to hold a minimum level of equity and/or loss absorbing eligible liabilities to ensure the operation of the bail-in tool to absorb losses and recapitalise an institution in resolution.
National Asset Management Agency	National Asset Management Agency ("NAMA") was established in 2009 as one of a number of initiatives taken by the Irish Government to address the serious problems which arose in Ireland's banking sector as the result of excessive property lending.
Net interest income	The amount of interest received or receivable on assets net of interest paid or payable on liabilities.
Net interest margin	Net interest margin ("NIM") is a measure of the difference between the interest income generated on average interest earning financial assets (lendings) and the amount of interest paid on average interest bearing financial liabilities (borrowings) relative to the amount of interest-earning assets.
Net Stable Funding Ratio	Net Stable Funding Ratio ("NSFR"): The ratio of available stable funding to required stable funding over a 1 year time horizon.
New transaction lendings	New transaction lending is defined as incremental increase in drawn balances against facilities granted for a specific period of time whereby the borrower can draw down or repay amounts as required to manage cash flow. It includes revolving credit facilities, overdrafts and invoice discounting facilities.
Non-performing exposures	Non-performing exposures are defined by the European Banking Authority to include material exposures which are more than 90 days past due (regardless of whether they are credit impaired) and/or exposures in respect of which the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or the number of days the exposure is past due.
Off-balance sheet items	Off-balance sheet items include undrawn commitments to lend, guarantees, letters of credit, acceptances and other items as listed in Annex I of the CRR.

GLOSSARY OF TERMS CONTINUED

Offsetting	Offsetting, or 'netting', is the presentation of the net amounts of financial assets and financial liabilities in the statement of financial position as a result of Group's rights of set-off.
Operational risk	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk, but excludes strategic and business risk. In essence, operational risk is a broad canvas of individual risk types which include product and change risk, outsourcing, information security, cyber, business continuity, health and safety risks, people risk and legal risk.
Principal components analysis	Principal components analysis ("PCA") is a tool used to analyse the behaviour of correlated random variables. It is especially useful in explaining the behaviour of yield curves. Principal components are linear combinations of the original random variables, chosen so that they explain the behaviour of the original random variables, and so that they are independent of each other. Principal components can, therefore, be thought of as just unobservable random variables. For yield curve analysis, it is usual to perform PCA on arithmetic or logarithmic changes in interest rates. Often the data is "demeaned"; adjusted by subtracting the mean to produce a series of zero mean random variables. When PCA is applied to yield curves, it is usually the case that the majority (> 95%) of yield curve movements can be explained using just three principal components (i.e. a parallel shift, twist and bow). PCA is a very useful tool in reducing the dimensionality of a yield curve analysis problem and, in particular, in projecting stressed rate scenarios.
Private equity investments	Equity securities in operating companies not quoted on a public exchange, often involving the investment of capital in private companies.
Probability of Default	Probability of Default ("PD") is the likelihood that a borrower will default on an obligation to repay.
Regulatory capital	Regulatory capital is determined in accordance with rules established by the SSM/ECB for the consolidated Group and by local regulators for individual Group companies.
Re-pricing risk	Re-pricing risk is a form of interest rate risk (i.e. a type of market risk) that occurs when asset and liability positions are mismatched in terms of re-pricing (as opposed to final contractual) maturity. Where these interest rate gaps are left unhedged, it can result in losses arising in the Group's portfolio of financial instruments.
Repurchase agreement	Repurchase agreement ("Repo") is a short-term funding agreement that allows a borrower to create a collateralised loan by selling a financial asset to a lender. As part of the agreement, the borrower commits to repurchase the security at a date in the future repaying the proceeds of the loan. For the counterparty to the transaction, it is termed a reverse repurchase agreement or a reverse repo.
Residential mortgage-backed securities	Residential mortgage-backed securities ("RMBS") are debt obligations that represent claims to the cash flows from pools of mortgage loans, most commonly on residential property.
Risk weighted assets	Risk weighted assets ("RWAs") are a measure of assets (including off-balance sheet items converted into asset equivalents e.g.credit lines) which are weighted in accordance with prescribed rules and formulas as defined in the Basel Accord to reflect the risks inherent in those assets.
Securities financing transactions	Securities financing transactions allow investors and firms to use assets, such as the shares or bonds they own, to secure funding for their activities.
Securitisation	Securitisation is the process of aggregation and repackaging of non-tradable financial instruments such as loans and advances, or company cash flows into securities that can be issued and traded in the capital markets.
Single Resolution Fund	The Single Resolution Fund (SRF) is an emergency fund that can be called upon in times of crisis.
Single Supervisory Mechanism	The Single Supervisory Mechanism ("SSM") is a system of financial supervision comprising the European Central Bank ("ECB") and the national competent authorities of participating EU countries. The main aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe.
Special purpose entity	Special purpose entity ("SPE") is a legal entity which can be a limited company or a limited partnership created to fulfil narrow or specific objectives. A company will transfer assets to the SPE for management or use by the SPE to finance a large project thereby achieving a narrow set of goals without putting the entire firm at risk. This term is used interchangeably with SPV (special purpose vehicle).

GLOSSARY OF TERMS CONTINUED

Stage allocation:	Under IFRS 9, loans and advances to customers are classified into one of three stages:
Stage 1	Includes newly originated loans and loans that have not had a significant increase in credit risk since initial recognition.
Stage 2	Includes loans that have had a significant increase in credit risk since initial recognition but do not have objective evidence of being credit impaired.
Stage 3	Includes loans that are defaulted or are otherwise considered to be credit impaired.
Stress testing	Stress testing is a technique used to evaluate the potential effects on an institution's financial condition of an exceptional but plausible event and/or movement in a set of financial variables.
Structured securities	This involves non-standard lending arrangements through the structuring of assets or debt issues in accordance with customer and/or market requirements. The requirements may be concerned with funding, liquidity, risk transfer or other needs that cannot be met by an existing off the shelf product or instrument. To meet this requirement, existing products and techniques must be engineered into a tailor-made product or process.
Subordinated liabilities	Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.
Syndicated and international lending	Syndicated and international lending involves lending to entities by leveraging off their equity structures having considered the cash generating capacity of the business and its capacity to repay any associated debt. Leveraging structures are typically used in management and private equity buy-outs, mergers and acquisitions. Syndicated and international lending is extended typically to non-investment grade borrowers and carries commensurate rates of return.
Tier 1 capital	A measure of a bank's financial strength defined by the Basel Accord. It captures common equity tier 1 capital and other instruments in issue that meet the criteria for inclusion as additional tier 1 capital. These are subject to certain regulatory deductions.
Tier 2 capital	Broadly includes qualifying subordinated debt and other tier 2 securities in issue. It is subject to adjustments relating to the excess of expected loss on the IRBA portfolios over the accounting expected credit losses on the IRBA portfolios, securitisation positions and material holdings in financial companies.
Tracker mortgage	A mortgage with a variable interest rate which tracks the European Central Bank ("ECB") rate, at an agreed margin above the ECB rate and will increase or decrease within five days of an ECB rate movement.
Trade date and settlement date accounting	1. Trade date accounting records the transaction on the date on which an agreement has been entered (the trade date), instead of on the date the transaction has been finalised (the settlement date). 2. Under the settlement date accounting approach, the asset is recognised on the date on which it is received by the Group, on disposal, the asset is not derecognised until the asset is delivered to the buyer.
Value at Risk	The Group's core risk measurement methodology is based on an historical simulation application of the industry standard Value at Risk ("VaR") technique. The methodology incorporates the portfolio diversification effect within each standard risk factor (interest rate, credit spread, foreign exchange, equity, as applicable). The resulting VaR figures, calculated at the close of business each day, are an estimate of the probable maximum loss in fair value over a one day holding period that would arise from an adverse movement in market rates. This VaR metric is derived from an observation of historical prices over a period of one year and assessed at a 95% statistical confidence level (i.e. the VaR metric may be exceeded at least 5% of the time).
Wholesale funding	Wholesale funding refers to funds raised from wholesale market sources. Examples of wholesale funding include senior unsecured bonds, covered bonds, securitisations, repurchase transactions, interbank deposits and deposits raised from non-bank financial institutions.
Yield curve risk	A type of market risk that refers to the possibility that an interest rate yield curve changes its shape unexpectedly (e.g. flattening, steepening, non-parallel shift), resulting in losses arising in the Group's portfolio of interest rate instruments.

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INDEX

	Page
A	
Accounting policies	231
Annual General Meeting	353
Approval of financial statements	344
Associated undertakings	335
Auditor’s remuneration	270
Average balance sheets and interest rates	57
B	
Board Audit Committee	95
Board Committees	87
Board and Executive Officers	86
Business model risk	202
C	
Capital adequacy risk	206
Capital	71
Capital reserves	312
Capital redemption reserves	312
Chairman’s statement	6
Chief Executive’s review	8
Commitments	316
Company secretary	87
Conduct risk	203
Contingent liabilities and commitments	316
Capital contributions	312
Corporate Governance report	84
Credit impairment – income statement	269
Credit ratings	136 and 185
Credit risk	134
Critical accounting judgements and estimates	257
Currency information	342
Customer accounts	304
D	
Debt securities in issue	305
Deferred taxation	295
Deposits by central banks and banks	304
Derivative financial instruments	274
Directors	78
Directors’ interests	123
Directors’ remuneration	113
Dividends	343

	Page
E	
Earnings per share	273
ECL	140
ECL allowance on financial assets	288
Employees	342
Exchange rates	342
Equity risk	201
F	
Fair value of financial instruments	324
Finance leases and hire purchase contracts	287
Financial and other information	342
Financial assets and financial liabilities by contractual residual maturity	193
Financial calendar	353
Financial liabilities by undiscounted contractual maturity	192
Financial statements	223
Forbearance	186
G	
Gain on financial assets	268
Glossary	355
Going concern	232
Governance and oversight	75
I	
Income statement	223
Independent auditor’s report	211
Intangible assets	291
Interest and similar income	266
Interest and similar expense	267
Interest rate risk in the banking book	195
Interest rate sensitivity	197
Internal Audit	99
Investment securities	289
Investments in Group undertakings	318
Irish Government	339
Investments accounted for using the equity method	290

INDEX CONTINUED

	Page
L	
Liquidity risk	188
Loans and advances to banks	286
Loans and advances to customers	287
Lease liabilities	306
Liquidity and funding risk	188
M	
Market risk	195
Model risk	207
N	
Net fee and commission income	267
Net trading income	268
Nomination and Corporate Governance Committee	104
Non-adjusting events after the reporting period	343
Notes to the financial statements	229
O	
Off-balance sheet arrangements and transferred financial assets	319
Offsetting financial assets and financial liabilities	312
Operating and financial review	56
Operational risk	202
Other equity interests	311
Other liabilities	306
Other operating income	268
P	
Pension risk	200
People and culture risk	205
Principal addresses	361
Property, plant and equipment	292
Prospective accounting changes	255
Provisions for liabilities and commitments	307

	Page
R	
Regulatory capital and capital ratios	71
Regulatory compliance	342
Regulatory compliance risk	204
Related party transactions	335
Report of the Directors	122
Retirement benefits	298
Risk appetite	127
Risk framework	127
Risk governance structure	130
Risk identification and assessment process	131
Risk management	130
Risk management and internal controls	118
S	
Schedule to the Directors' report	125
Segmental information	262
Securities financing	288
Share capital	310
Statement of cash flows	334
Statement of comprehensive income	224
Statement of changes in equity	226
Statement of Directors' Responsibilities	210
Statement of financial position	225
Stock exchange listings	353
Subordinated liabilities and other capital instruments	309
Subsidiaries and consolidated structured entities	318
Supervision and regulation	128
Sustainable Business Advisory Committee	116
T	
Taxation	271
Technology & Data Advisory Committee	115
Trading portfolio financial assets	273
Trading portfolio financial liabilities	273
Transferred financial assets	319
V	
Viability statement	120
W	
Website	353

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