AIB Mortgage Bank Unlimited Company

Annual Financial Report
for the financial year ended 31 December 2023

Contents

Directors and other information

Directors at date of signing	Eamonn Quinn	Independent Non-Executive Director and Chair
	Padraig Brosnan	Non-Executive Director
	Gerry Gaffney	Executive Director
	Yvonne Hill	Independent Non-Executive Director
	Andy Maguire	Non-Executive Director
	Conor McGrath	Managing Director
	Carol Meehan	Non-Executive Director
	Paul Owens	Independent Non-Executive Director

Company secretary Diane Lumsden

Registered office
10 Molesworth Street
Dublin 2
Ireland

Registered number 404926

Registered auditor
PricewaterhouseCoopers
Chartered Accountants
One Spencer Dock
North Wall Quay
Dublin 1

Banker
Allied Irish Banks, p.l.c.
10 Molesworth Street
Dublin 2
Ireland

Solicitor
Helen Dooley
Group General Counsel
Allied Irish Banks, p.l.c.
10 Molesworth Street
Dublin 2
Ireland

Covered-asset monitor
Mazars
Harcourt Centre
Block 3
Harcourt Road
Dublin 2
Ireland

Directors' report

The Directors of AIB Mortgage Bank Unlimited Company ('the Bank') present their report and the audited financial statements for the financial year ended 31 December 2023. The Statement of Directors' responsibilities is shown on page 48.

Principal activities

The Bank, a public unlimited company, obtained an Irish banking licence under the Irish Central Bank Act, 1971 (as amended) and was registered as a designated mortgage credit institution under the Asset Covered Securities Act, 2001 on 8 February 2006.

The Bank is a wholly owned subsidiary of Allied Irish Banks, p.l.c. ('AIB'). The ultimate parent company of the Bank and AIB is AIB Group plc ('AIB Group' or 'Group').

The Bank's principal objective is to issue mortgage covered securities for the purpose of financing mortgage loans secured on residential property in accordance with the Asset Covered Securities Act, 2001 and the Asset Covered Securities (Amendment) Act 2007 ('the Asset Covered Securities Acts'). Such mortgage loans may be made directly by the Bank or may be purchased from AIB and other subsidiary undertakings of AIB or third parties. The Bank's debt securities are listed on the main securities market of Euronext Dublin.

The Bank's business activities are restricted, under the Asset Covered Securities Acts, to dealing in, and holding, mortgage credit assets and limited classes of other assets, engaging in activities connected with the financing and refinancing of such assets, entering into certain hedging contracts and engaging in other activities which are incidental to, or ancillary to, the above activities. In accordance with the Asset Covered Securities Acts, the Cover-Assets Monitor, Mazars, monitors compliance with the Asset Covered Securities Acts and reports independently to the Central Bank of Ireland ('CBI' or the 'Central Bank').

The Bank's activities are financed through the issuance of mortgage covered securities with the balance of funding being provided by AIB.

All of the Bank's activities are outsourced to AIB under an Outsourcing and Agency Agreement. AIB, as Service Agent for the Bank, originates residential mortgage loans through its retail branch network and other distribution channels in Ireland, services the mortgage loans, and provides treasury services in connection with financing as well as a range of other support services, including but not limited to Finance, Operations, IT, Risk and Compliance.

Results for the financial year

The profit before taxation ('PBT') for 2023 amounted to €29m (2022: €27m), as set out in the income statement page 58.

Net interest income decreased to €76m for 2023, from €284m in 2022. The reduction is mainly driven by higher funding costs due to increased market interest rates, partly offset by higher customer rates and loan balances.

Other income reduced to €92m in 2023 from €695m in 2022, a reduction of €603m. This reduction is principally due to a negative movement in net trading income of €1,094m (2023: €406m net trading loss; 2022: €688m income), being the reduction in mark to market value of derivatives which economically hedge interest rate risk on loans and advances to customers and which are not designated in a hedging relationship under IAS 39. This reduction in net trading income is partly offset by an amount receivable from AIB of €498m as determined by the transfer pricing agreement between the Bank and AIB.

Operating expenses reduced to €134m in 2023, from €955m in 2022, a reduction of €821m, driven by a reduction in amounts payable to AIB of €803m (2023: €158m; 2022: €961m), as determined by the transfer pricing agreement between the Bank and AIB and higher other operating expense writebacks (2023: €24m; 2022: €6m).

Net credit impairment charge in 2023 was €5m (2022: €3m writeback), an increase of €8m. The net credit impairment charge for 2023 reflected a net remeasurement of expected credit loss ('ECL') allowance charge of €8m (2022; €5m), partly offset by recoveries of amounts previously written-off of €3m (2022: €8m). For further information see pages 13 to 39 in the risk management section.

Directors' report

Business review

The Irish economy experienced a very sharp slowdown in growth in 2023, following the very strong performances seen in 2021 and 2022, when GDP rose by 15% and 9.5%, respectively. The preliminary estimate from the CSO is that GDP contracted in 2023 reflecting a marked post-pandemic decline in manufacturing output in the pharmaceuticals and ICT sectors, which had seen a surge in production during COVID-19. Exports of goods, which had risen by c. 20% on average in 2021 and 2022, fell by 6.5% year-on-year in the first three quarters of 2023. The domestic economy also slowed sharply in 2023, with modified domestic demand expanding by just 0.9% year-on-year over Q1-Q3, down from 9.7% registered for the full year in 2022. Consumer spending, though, rose by 3.6% during this period.

The Irish labour market continued to perform well in 2023. Ongoing strong net inward migration helped sustain robust growth in the workforce. Employment rose sharply and was up by 3.4% year-on-year in the fourth quarter. Meantime, the unemployment rate averaged 4.3% for the year. Inflation fell sharply over the course of 2023, with the annual HICP rate (standardised EU inflation measure) declining to 3.2% by December.

There was a further rise in housing output in 2023 following its sharp increase in 2022 from the low levels seen during the COVID-19 pandemic. CSO data put house completions at 32,695 in 2023, up from just below 30,000 the previous year and c. 20,500 per annum in the period 2019-2021. Meanwhile, official government data show housing commencements picked up over the course of 2023, totalling 32,801 for the year, up from 26,907 in 2022. House prices fell back earlier in the year, before recovering from the summer onwards. Overall, CSO data show residential property prices rose by 3.1% in 2023, following a 12.4% increase in 2022. CSO data also show an easing in rental inflation during 2023.

Household savings were maintained at a very high level in 2023. Private sector deposits stood at €305bn by year end 2023, down slightly from €312bn in December 2022, but up by 39% since end 2019. Mortgage market drawdowns amounted to €12.1bn in 2023, down from €14.1bn in 2022, largely reflecting a fall-off in switching activity.

The impact of the above factors on the Bank's financial performance, was an increase in customer loans of €292m (+ 2%) to €18,038m as new lending has exceeded loan repayments, notwithstanding cost of living and interest rate increases experienced during 2023.

The Bank continues to provide home loans in the Irish market, offering a range of fixed and variable rates including Green 5 Year Fixed and High Value Fixed and through channel options including Branch and Digital. In addition the Bank offers a Switcher - legal fee support of €2,000 on all new loans switching to the bank from another lender. The Bank's main focus is to support viable owner-occupier customers, including first time buyers, home movers, home improvements and those switching their mortgage. During 2023, the Bank's priorities have been to continue to support customers, maintain strong capital position and improve operational resilience.

Mortgage pricing is kept under continuous review and during 2023, the European Central Bank ('ECB') increased rates by a total of 2% on six occasions between February and September 2023. In 2022, the ECB increased rates by a total of 2.5% on four occasions between July and December 2022. In response to the rising interest rate environment, the Bank increased interest rates applicable to tracker mortgages in line with ECB changes and increased the rates applicable to new fixed rate mortgages by c.1% in 2023.

Asset quality

The Bank's loan portfolio before loss allowance increased by 2% during 2023 to €18,153m as at 31 December 2023, (2022: €17,857m) as new lending has exceeded repayments by €296m during the year (2022: decrease of 2.3%).

The Bank's residential mortgage portfolio comprises owner-occupier mortgages €17,223m (2022: €16,688m) and buy-to-let mortgages €930m (2022: €1,169m).

Non-performing loans at 31 December 2023 were €226m (2022: €220m). Non-performing loans as a percentage of gross loans and advances to customers was 1.2% at 31 December 2023 in line with 1.2% at 31 December 2022.

Expected credit loss provisions are €115m (2022: €111m). The Bank has taken a prudent approach to the determination of provisions, including recognition of the increase in the cost of living and interest rates experienced by borrowers in 2023.

During 2023 the Bank implemented a redeveloped IFRS 9 mortgage model for residential mortgages which resulted in €391m of customer loans and related ECL of €41m being transferred from Stage 1 to Stage 2.

The Bank has outsourced the management and servicing of its mortgage portfolio to AIB. AIB has credit policies and strategies, implementation guidelines and monitoring structures as adopted by the Bank to manage its mortgage portfolio, including restructured loans. AIB regularly reviews the performance of these restructured loans and has a dedicated team to focus on asset sales within the restructured portfolio. AIB will continue to implement sustainable solutions for customers who engage with the Bank, where feasible.

Funding activities

At 31 December 2023, the total amount outstanding in respect of mortgage covered securities issued was €9,900m (2022: €8,274m), of which €27m was held by external debt investors (2022: €1,024m) and €9,873m by AIB (2022: €7,250m).

The Minister for Finance published S.I. No. 576/2021 European Union (Covered Bonds) Regulations 2021 to transpose Directive (EU) 2019/2162 into Irish law on 3 November 2021. In accordance with the EU Covered Bonds Directive, the Irish Covered Bonds Regulations came into operation on 8 July 2022. The Bank has complied with the requirements of the new regulations as they apply to the issue and ongoing management of covered bonds and their related security. The Bank received CBI approval of its Covered Bond Programme ('CBP') and the associated prospectus in accordance with the new regulations on 22 March 2023.

In May 2023, the Bank issued €3,000m (2022: nil) of covered bonds to AIB (retained issueance) with a weighted average tenor of 5.98 years. In 2023 covered bonds with a nominal value of €1,500m were redeemed on maturity (€1,000m: External Issuance and €500m: Internal issuance). In 2022, covered bonds with a nominal value of €1,250m were redeemed on maturity (€750m: External Issuance and €500m: Internal Issuance).

Following a turbulent first half of 2023, the second half of the year brought about stabilisation and continued activity in the primary markets, with central banks bringing an historic rate hiking cycle to a halt. 2023 was a strong year for covered bond benchmark issuance seeing elevated net supply, with €246bn placed over the course of the year. This follows, and exceeds, a post Global Financial Crisis recording breaking year in 2022, of €204bn.

In 2023, covered bonds underperformed versus other asset classes, including Senior Preferred, with notable spread widening driven by rates volatility, elevated net supply, and the tapering of ECB reinvestments under the Covered Bond Purchase Programme 3 (‘CBPP3’) – reduced to zero from 1 July 2023. Meanwhile, reinvestments under the Pandemic Emergency Purchase Programme ('PEPP'), via which the ECB purchased only a nominal amount of covered bonds, are set to continue until at least the end of 2024.

The AIB Group Green Bond Framework allows the Group to issue unsecured green bonds. Proceeds from these green bonds are allocated to a pool of eligible green loans and this can include green residential mortgages.

The Bank's Green Mortgage loans which meet minimum Building Energy Rating ('BER') rating eligibility criteria can be included as eligible loans for green bond issuance purposes. At 31 December 2023 €1.2bn of the Bank’s Green Mortgages were assigned to the AIB Group’s Green Bond Portfolio.

The ratings as at 31 December 2023 for the Bank's Covered Bond Programme, AIB and Ireland are shown below:

Rating Agency	Covered Bond Programme	AIB Issuer default rating	Ireland (Sovereign)
Moody’s	Aaa	A3 (Stable)	A1 (positive outlook)
Standard & Poor’s	AAA	BBB- (Stable)	AA- (positive outlook)

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Standard & Poor’s	AAA	BBB- (Stable)	AA- (positive outlook)

In addition to covered bonds the Bank is funded by borrowings from its parent AIB. The balance at 31 December 2023 was €6,874m (2022: €8,578m) a decrease of €1,704m. The decrease is primarily driven by the €3,000m new issues, a decrease in total assets €204m, offset by redemption of bonds in issue of €1,500m.

Share Capital

Information of the Bank's share capital is set out in note 24 to the financial statements.

Directors' report

Capital resources and regulatory capital ratios
The objectives of the Bank's capital management policy are to at all times comply with regulatory capital requirements and to ensure that the Bank 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 the risk management report on page 46.

The Bank's capital requirement at 31 December 2023 is a minimum Common Equity Tier 1 ('CET1') of 11.5%, comprised of a Pillar 1 requirement of 8.0%, Capital Conservation Buffer ('CCB') of 2.5% and a Countercyclical Capital Buffer ('CCyB') for Irish exposures of 1.0%. The CBI is increasing the CCyB to 1.5% in June 2024 and the Bank's minimum capital requirement will increase accordingly.

At 31 December 2023, the fully loaded CET1 ratio was 19.4% (2022: 21.5%). The fully loaded total capital ratio was 23.8% (2022: 26.4%). The decrease is driven by higher Risk Weighted Assets ('RWAs').

Minimum Requirement for Own Funds and Eligible Liabilities ('MREL')
At 31 December 2023, the Bank has an MREL ratio of 23.8% (2022: 26.5%) of Total Risk Exposure Amount ('TREA').

The Single Resolution Board ('SRB') has set the minimum MREL requirement on both a TREA and Leverage Ratio Exposure Measure ('LEM') basis under the Bank Recovery and Resolution Directive ('BRRD II') legislative framework. The binding requirement at 31 December 2023 is 18.7% of TREA including the combined buffer requirement.

Leverage ratio
The leverage ratio at 31 December 2023, was 7.0% (2022: 6.9%) on a fully loaded basis. The regulatory requirement at 31 December 2023 is 3% (2022: 3%).

Risk management
The Bank adopts the same risk management framework and risk mitigation initiatives as AIB. The risk management framework provides a Group-wide definition of risk and lays down principles of how risk is to be identified, assessed, measured, monitored and controlled/mitigated, and the associated allocation of capital against same. Further information in relation to risk management, including the principal risks and uncertainties facing the Bank, 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 in the risk management report on pages 12 to 47.

Outlook for 2024
All the main official international forecasters are projecting another year of subdued growth for the global economy in 2024. High interest rates, much tighter financial conditions, less supportive stance of fiscal policy, continuing high levels of both uncertainty and elevated geo-political risks are all expected to weigh on activity in the year ahead. Growth in Europe is projected to remain very subdued for a second consecutive year, while the pace of activity in the USA is expected to slow down. Labour markets remain tight, though, so unemployment is likely to stay relatively low. Furthermore, it is anticipated by markets that central banks will begin lowering interest rates as the year progresses in response to a further easing in inflationary pressures.

The Irish economy is not immune to these trends but the pace of growth here is expected to strengthen from the very weak levels seen in 2023. The IDA reports that Ireland's FDI proposition remains strong against a challenging international environment. The public finances are in strong shape, allowing fiscal policy to remain supportive of activity. Private sector balance sheets are characterised by low debt and high savings. Thus, most current forecasts are for Irish GDP to grow by around 2.5% in 2024.

House price inflation eased considerably in the past year in Ireland with rising interest rates, the cost-of-living squeeze and economic uncertainty acting as headwinds. While there has been a notable uptick in housing starts and completions over the course of 2023, ongoing housing supply shortfalls in addition to accumulated household savings will continue to support the market. Overall, modest growth in house prices (within a range of 1.0-2.5% per annum) is anticipated over the 2024-2028 period.

Sustainability and climate change
As a subsidiary of AIB Group, the Bank continues to integrate climate risk into its overall risk management approach and broader sustainability strategy. In support of AIB's sustainability strategy the Bank offers a Green 5 year fixed rate mortgage available to new and existing owner occupier customers. This offering is available to customers whose property has a Building Energy Rating ('BER') of between A1-B3 inclusively. Green Mortgages accounted for 30% (2022: 36%) of the Bank's new lending in 2023. The Bank is committed to continue supporting customers' transition to a low carbon economy with enhanced green products, propositions and support.

Directors' report

Going concern

The financial statements for the financial year ended 31 December 2023 have been prepared on a going concern basis as the Directors are satisfied, having considered the principal risks and uncertainties impacting the Bank, 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 these annual financial statements.

The Bank is dependent on AIB for continued funding and is therefore dependent on the going concern status of the parent. The financial statements of AIB have been prepared on a going concern basis.

In making their assessment, the Directors of AIB considered a wide range of information relating to present and future conditions. These included financial plans covering the period 2024 to 2026, liquidity and funding forecasts and capital resources projections, all of which were prepared under base and stress scenarios.

In addition, the Directors of the Bank considered the principal risks and uncertainties which could materially affect the Bank's future business performance and profitability and which are outlined on pages 12 to 47.

AIB continues to support the Bank operationally, through an outsourced arrangement. AIB has confirmed it will continue to provide financial support, so the Bank can meet its funding obligations and capital requirements, for a period of not less than twelve months from the date these financial statements are approved by the Directors.There is no intention to liquidate the Bank or cease trading.

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

Directors

At 31 December 2023, the Board of Directors of the Bank was comprised of Mr Eamonn Quinn, Mr Padraig Brosnan, Mr Gerry Gaffney, Ms Yvonne Hill, Mr Andy Maguire, Ms Carol Meehan, Mr Conor McGrath and Mr Paul Owens.

The following Board changes occurred during the year.
- Mr Andy Maguire was appointed as a Director on 17 February 2023;
- Mr James Murphy resigned as a Director on 24 March 2023;
- Ms Carol Meehan and Mr Padraig Brosnan were both appointed as Directors on 26 July 2023; and
- Mr Chris Curley resigned as a Director on 25 August 2023.

Directors' and Secretary's interests in shares

The Directors and Company Secretary did not hold any interests in the Bank's shares or debentures at the beginning of the year, during the year or at the year end, pursuant to Section 267 and 329 of the Companies Act 2014.

Shares held in the ultimate parent company AIB Group plc were below 1% of the issued share capital and not disclosable pursuant to Section 260 of the Companies Act 2014.

Share options

Share options were not granted or exercised during the year. Independent Non-Executive Directors do not participate in share option schemes.

Long term incentive plans

There were no conditional grants of awards of ordinary shares outstanding to Executive Directors or the Company Secretary at 31 December 2023. Independent Non-Executive Directors do not participate in long term incentive plans.

There were no changes in the Directors' and Secretary's interests between 31 December 2023 and 4 March 2024.

Dividend

There was no interim dividend paid to the shareholder during 2023 and the Board is not recommending the payment of a final dividend for 2023 (2022: nil).

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 financial statements.

Political donations

The Directors have satisfied themselves that there were no political contributions during the year that require disclosure under the Electoral Act 1997.

Directors' report

Corporate Governance
The Directors' Corporate Governance report is set out on pages 9 to 11 and forms part of this report.

Branches outside the State
The Bank has not established any branches outside the State.

Disclosure notice under section 33AK of the Central Bank Act 1942
The Bank did not receive a Disclosure Notice under Section 33AK of the Central Bank Act 1942 during 2023.

Accounting records
The Directors have complied with the requirements of Sections 281 to 285 of the Companies Act 2014 with regard to the Bank's obligation to keep adequate accounting records by ensuring that AIB allocate adequate resources with appropriate expertise to the finance function under the Outsourcing and Agency Agreement, for the provision of accounting and other financial services to the Bank. The Directors monitor AIB's performance against agreed service levels through receipt of regular reports covering the services provided. The accounting records of the Bank are maintained at the registered office of its ultimate parent at AIB Group plc, 10 Molesworth Street, Dublin 2, Ireland.

Non-adjusting events after the reporting period
There have been no significant events affecting the Bank since the reporting date which require amendment to or disclosure in the financial statements.

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 Bank's auditor is unaware; and
(b) the Director has taken all steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Bank'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.

Independent auditor
The auditor, PricewaterhouseCoopers ("PwC") were appointed to the Bank in May 2023 following shareholder approval on that date and have indicated a willingness to continue in office under Section 383(2) of the Companies Act, 2014, their continued appointment is subject to approval by the shareholder.

On behalf of the Board,

Eamonn Quinn	Conor McGrath
Chair	*Managing Director*

4 March 2024

Corporate governance report

Corporate governance

The Bank's corporate governance practices are designed to ensure compliance with applicable legal and regulatory requirements including, Irish company law, the Central Bank of Ireland's Corporate Governance Requirements for Credit Institutions 2015 (the '2015 Requirements') and the Listing Rules applicable to debt listings of the Main Securities Market of Euronext Dublin.

Central Bank of Ireland's Corporate Governance Requirements for Credit Institutions 2015

The Bank is a credit institution and is subject to the provisions of the 2015 Requirements, including compliance with requirements specifically relating to 'high impact institutions'. Acknowledging the Bank's position as part of the wider AIB Group, derogations have been granted to the Bank by the Central Bank of Ireland in respect of specified provisions of the 2015 Requirements.

Compliance with the requirements

In 2023, the Bank was compliant with the 2015 Requirements, with the exception of Requirement 22.1 to have a minimum of three members on the Audit Committee, each of whom must be a Non-Executive Director. During 2023, the Audit Committee was comprised of three members, which reduced to two on 24 March 2023 following the resignation of James Murphy as Director and member of the Audit Committee. Padraig Brosnan, Non-Executive Director, was appointed to the Audit Committee on 26 July 2023 and the Audit Committee returned to full compliance with Requirement 22.1. Committee meetings continued to operate effectively with a quorum of two members during this period. During 2023, the Bank's Audit Committee were fully compliant with requirement 22.2, the majority of Non-Executive Directors were independent. The Board concluded that the Bank was materially compliant with the provisions of the 2015 Requirements during 2023 and there was no known negative impact on the governance and financial position of the Bank, nor was there deemed to be any poor outcomes for its customers.

The Board of Directors

The Board supports and strives to operate in accordance with the Bank's purpose and values at all times and challenges management as to whether the purpose, values and strategic direction of the Bank align with its desired culture, or if they do not, whether there are options to mitigate any potential negative impacts. The Board is responsible for corporate governance encompassing leadership, direction and control of the Bank and is responsible for financial performance to its shareholder and ultimate parent, AIB Group plc.

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 Managing Director, who manages and leads the business. The Chair leads the Board, setting its agenda, ensuring the 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 performance of individual Directors.

Independent Non-Executive Directors provide a key layer of oversight, scrutinising the performance of management in meeting agreed objectives and monitoring and reporting against performance. They bring an independent viewpoint to the deliberations of the Board that is objective and independent of the activities of management and the Group. They constructively challenge proposals on strategy and other key matters.

The Directors have access to the advice and services of the Company Secretary, who advises the Board on governance matters ensuring that Board procedures are followed and that the Bank is in compliance with applicable rules and regulations.

The governance 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.

The Board is supported in discharging its duties by its Audit Committee and the Group Board's Risk, Remuneration and Nomination and Corporate Governance Committees. While arrangements have been made by the Directors for the delegation of the management, organisation and administration of the Bank's affairs, certain matters are reserved specifically for decision of the Board. These matters are reviewed at least annually to ensure that they remain relevant.

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

The Board met on thirteen occasions during 2023. The Chair ensures meetings are structured to facilitate open discussion, constructive challenge and debate. The Board receives a comprehensive executive management report at each of its scheduled quarterly meetings. The remainder of the agenda is built from the Board's 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.

The Board of Directors (continued)

The Board's professional development and continuous education programme continued throughout 2023 and was designed in conjunction with the Board's indicative work programme to ensure that training was delivered at a time when it would be of most benefit or relevance of the Board. An induction programme is provided to new Directors and includes a series of meeting with management, relevant briefings, together with any specific training identified during the course of appointment of the individual.

The review of the appropriateness of the composition of the Board and its Audit Committee is a continuous process, and recommendations for appointment are made based on merit and objective criteria, having regard to collective skills, experience, independence and knowledge of the Board along with its diversity requirements. The Board Succession Plan details planned Board composition as well as Audit Committee membership, the likely tenure of Non-Executive Directors and upcoming actions to be undertaken. The Succession Plan includes the Board's Skills Matrix.

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 Group Board's Nomination and Corporate Governance Committee. Any additional term beyond six years is subject to annual review and approval by the Board.

Non-Executive Directors are required to devote such times as is necessary for the effective discharge of their duties.

The effectiveness of the Board and its Audit Committee is reviewed annually.

The Board is responsible for ensuring that appropriate systems of internal controls and risk management are maintained, specifically the Board sets the Risk Appetite Statement and approves the Bank's strategy and financial plans. The Bank benefits as a subsidiary of AIB from the wider AIB governance and operating structure, such as oversight of audit and risk related activities. AIB provides services to the Bank through an Outsourcing and Agency Agreement, updates in respect of the performance against agreed service levels which are provided to the Board regularly.

In the event of material failings or weaknesses in the risk management or internal control systems, an explanation of any such issues, including an impact assessment and a proposed remediation plan, would be presented to the Board. Agreed remediation plans would be tracked to conclusion, with status updates provided to the Board. Given the work of the Board and representations made by the management team during 2023, the Board is satisfied with the effectiveness of the Bank's risk management and internal control framework, and that the appropriate action would be taken to address any material failings or weaknesses identified through its operation, of which there were none in 2023.

The Bank has robust governance arrangements, which include (i) a clear organisational structure with well defined, transparent, and consistent lines of responsibility, (ii) effective processes to identify, manage, monitor and report the risks to which it is or might be exposed, and (iii) adequate internal controls, including sound administrative and accounting procedures, IT systems and controls. The Board receives regular updates on the Bank's risk profile together with updates on the Bank's internal control system from the Audit Committee.

Financial reporting processes

The Board, supported by its Audit Committee, rely on AIB'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 Board, through established processes regarding internal control and risk management systems ensures effective oversight of the financial reporting process. The Bank's control system around the financial reporting process includes:

- clearly defined organisation structure and authority levels with reporting mechanisms to the Board;
- a comprehensive set of policies and procedures, in line with AIB, relating to the controls around financial reporting and the process of preparing the financial statements; and
- ensuring the integrity of the financial statements and the accounting policies therein.

The Board evaluates and discusses significant accounting and reporting issues as the need arises.

Audit Committee

The Audit Committee complied with the 2015 Requirements, with the exception of the items highlighted above and section 1551 of the Companies Act 2014. The Board is assisted in the discharge of its duties by its Audit Committee, which operates under its Terms of Reference and as set by the Board and is annually reviewed and approved by the Board.

The Audit Committee is chaired by Yvonne Hill and the other members of the Audit Committee are Paul Owens, independent Non-Executive Director, and Padraig Brosnan, Non-Executive Director. They each possess the requisite degree of independence so as to be able to contribute effectively to the Audit Committee's functions. The Chair ensures meetings are structured to facilitate open discussion, constructive challenge and debate. The Audit Committee also completes an annual effectiveness evaluation as part of the overall Board effectiveness review.

Audit Committee (continued)

During 2023, the Audit Committee, had oversight responsibility for audit matters including, inter alia:
- the quality and integrity of the Bank's accounting policies, financial and narrative reports and disclosure practices;
- the independence and performance of the External Auditor ('the Auditor') and Internal Audit, duly liaising with the AIB Group Board Audit Committee on matters in relation to the Auditor and Internal Audit, as necessary; and
- the adequacy of arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and the effectiveness of the Bank's internal control, risk management, and accounting and financial reporting systems.

During 2023, the Audit Committee met on seven occasions and, amongst other activities, it reviewed the Bank's annual financial statements and related accounting policies, key judgements and practices; the effectiveness of internal controls, including the effectiveness of controls operated under the Outsourcing and Agency Agreement; and the findings, conclusions and recommendations of the Auditor and Internal Auditor. The Audit Committee satisfied itself through regular reports from the Internal Auditor and the Auditor that the system of internal controls was effective. The Audit Committee also supported the Board with its review of the Bank’s risk frameworks and policies.

The Audit Committee ensures that appropriate measures are taken into consideration and addresses control issues identified by Internal Audit and the Auditor.

The Audit Committee Chair attended a meeting of the Group Board Audit Committee and provided an annual update on the key themes and discussions at the Audit Committee meetings.

Attendance at Board and Audit Committee Meetings during 2023

Directors’ Attendance at Board Meetings during 2023		
	Eligible to attend	Attended
Eamonn Quinn	13	13
Padraig Brosnan	4	4
Chris Curley	9	8
Gerry Gaffney	13	12
Yvonne Hill	13	13
Andy Maguire	11	9
Conor McGrath	13	13
Carol Meehan	4	4
James Murphy	2	2
Paul Owens	13	13

Members’ Attendance at Audit Committee Meetings during 2023		
	Eligible to attend	Attended
Yvonne Hill	7	7
Padraig Brosnan	3	3
James Murphy	2	2
Paul Owens	7	7

Risk management report

1. Introduction

All of the Bank's activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risks which are assessed across the AIB Group. Certain risks can be mitigated by the use of safeguards and appropriate systems and actions which form part of AIB Group's Risk Management Framework. The Bank experiences similar risks and uncertainties facing AIB Group and adopts the same risk mitigation initiatives as AIB Group.

2. Risk management framework

The Bank relies on AIB Group's framework and its supporting policies, processes and governance. For more information on the operation of the Board of the Bank see pages 9 to 10 of this Report.

3. Individual risk types

This section provides details of the exposure to, and risk management of, the following individual risk types which have been identified through the Bank's Material Risk Assessment ('MRA') process.

In December 2023 Climate and Environmental risk was approved as a new Principal Risk for the Bank. Other changes to the Bank's Principal Risks have also occurred. People risk has been made a sub-risk of Operational risk due to its interconnectedness whereby decisions or behaviour of individuals can directly influence other operational risks. While Culture risk remains a Principal Risk, it is now combined with Conduct risk.

The Bank faces 10 Principal Risks which are key areas of management focus include:

3.1 Credit risk;
3.2 Liquidity and funding risk;
3.3 Market risk;
3.4 Business model risk;
3.5 Operational risk;
3.6 Conduct risk and Culture risk;
3.7 Regulatory compliance risk;
3.8 Capital adequacy risk;
3.9 Model risk; and
3.10 Climate and Environmental risk.

The information below in sections, paragraphs or tables denoted as audited in sections 3.1, 3.2, 3.3 and 3.8 in the Risk management report forms an integral part of the audited financial statements as described in note 1.3 'Basis of preparation' to the financial statements. All other information, including tables, in the Risk management report is additional disclosure and does not form an integral part of the audited financial statements.

3.1 Credit risk

Definition of Credit risk

Credit risk is the risk that the Bank 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 process, credit risk is grouped into the following two 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; and
ii. Concentration risk: The risk of excessive credit concentration including to an individual, counterparty, group of connected counterparties, a type of collateral or a type of credit facility.

The most significant credit risks assumed by the Bank arise from mortgage lending activities to customers in the Republic of Ireland. Credit risk also arises on funds placed with other banks, derivatives relating to interest rate risk management and ‘off-balance sheet’ commitments.

Bank Risk Appetite Statement

The Bank's Risk Appetite Statement ('RAS') defines the aggregate level and types of risks that the Bank is willing to take, accept, or tolerate in pursuit of its business objectives and strategy as set by the AIB Group Board. As part of the overall framework for risk governance, it forms a boundary condition to strategy and guides the Bank in its risk-taking and related business activities. Credit risk appetite is set at AIB Group Board level and is described, reported and monitored through a suite of qualitative and quantitative metrics. The credit risk metrics cover the two sub risks identified as part of the AIB Group Material Risk Assessment process – counterparty risk and concentration 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 Bank. The Bank's risk appetite for credit risk is reviewed and approved at least annually.

Credit risk principles and policy *(audited)*

The Bank implements and operates policies to govern the identification, assessment, approval, monitoring and reporting of credit risk. The Bank relies on the AIB Group credit risk framework and its supporting policies, processes and governance. The AIB Group Credit Risk Framework and AIB Group Credit Risk Policy are overarching AIB Group Board approved documents which set out the principles of how AIB Group identifies, assesses, approves, monitors and reports credit risk to ensure robust credit risk management is in place. These documents contain the minimum standards and principles that are applied across AIB Group to provide a common, robust and consistent approach to the management of credit risk.

The AIB 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 Bank, if required, to take early and proactive mitigating actions for any potential areas of concern.

Credit risk management

The activities which govern the management of credit risk within the Bank 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 Bank’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 Bank's policies and procedures;
- Establish and enforce an efficient internal review and reporting system to manage effectively the Bank'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;

3.1 Credit risk (continued)
Credit risk management (continued)
- 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 Bank. This includes consideration of, and the granting of, forbearance measures;
- Utilise quality management information and risk data to ensure an effective credit risk management and measurement process when reporting on the holistic credit risk profile of the Bank, 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 Bank's goals and enables business growth, provides constructive challenge and avoids credit risks that cannot be adequately measured.

Credit approval overview *(audited)*
The Bank operates credit approval criteria which:
- Include a clear indication of the Bank's target market(s), in line with its RAS;
- 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 standards and facility structuring standards.

Credit risk approval is undertaken by professionals operating within a defined delegated authority framework. AIB Group Board is the ultimate credit approval authority. The AIB Group 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 AIB Group on a risk appropriate basis. Credit limits are approved in accordance with the Bank's written risk policies and guidelines.

All exposures above certain levels require approval by the AIB Group Credit Committee ('GCC') and/or AIB Group Board. Other exposures are approved according to a structure 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.

ECL governance *(audited)*
The Board of AIB Group 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 AIB Group.

The key governance points in the ECL approval process during 2023 were:
- Model Risk Committee;
- Asset and Liability Committee;
- Business level ECL Committees;
- Group Credit Committee; and
- Board Audit Committee.

For ECL governance, the Bank's management employs its 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, coupled with internal and external data provided on both short term and long term economic outlook. The Bank's management are required to ensure that there are appropriate levels of cover for all of its credit portfolios and must take account of both accounting and regulatory compliance when assessing the expected levels of loss. In addition, the redeveloped IFRS 9 mortgage model was approved by the Model Risk Committee.

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 subject to approval at individual business unit level (ECL Committee), which also includes subsidiaries, prior to onward submission to the AIB Group Credit Committee ('GCC'). GCC reviews and challenges ECL levels for onward recommendation to the AIB Group Board Audit Committee as the final approval authority.

In addition, the Bank's senior management reviews and challenges the ECL levels prior to recommendation to the Bank's Audit Committee. The Bank's Audit Committee then recommends the Bank financial results to the Bank Board for ultimate final approval, including ECLs.

3.1 Credit risk (continued)

Credit risk organisation and structure *(audited)*

The Bank's credit risk management structure operates through a hierarchy of lending authorities. The Bank relies on the AIB Group credit risk framework and its supporting policies, processes and governance. All customer mortgage applications are subject to a credit assessment process. The role of the AIB Group Credit Risk function is to provide direction, independent oversight and challenge of credit risk-taking.

Credit risk management consideration of ESG risks

The Bank continues to adapt its credit risk management processes and policies to capture environmental, social, and governance ('ESG') risks. In addition to a number of key initiatives introduced by the Bank to date, throughout 2023, further mortgage sector specific rules and limitations were incorporated into credit policies within a defined climate-related and environmental risk appetite. Further details on climate and environmental risk are outlined in section 3.10 on page 47.

Internal credit ratings *(audited)*

One of the objectives of credit risk management is to accurately quantify the level of credit risk to which the Bank 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 Bank'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 Bank utilises 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 Bank'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 Bank 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.

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 Bank has set out its methodologies and judgements exercised in determining its expected credit loss ('ECL') under IFRS 9 on pages 18 to 28.

Strong/satisfactory *(audited)*

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.

Criticised *(audited)*

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 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 *(audited)*

The Bank'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.

3.1 Credit risk (continued)

Internal credit ratings (continued) *(audited)*

Non-performing/default (continued) *(audited)*

The Bank 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 Bank'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 Bank 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 criteria for the definition of financial distress and forbearance are included in the AIB Group Forbearance policy. Criteria for identification of non-performing exposures and unlikeliness to pay are included in AIB Group's Definition of Default and Credit Impairment policy.

Credit risk monitoring *(audited)*

The Bank 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 Bank'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 of the Bank and to the AIB Group Board Risk Committee. Credit managers proactively manage 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 circumstances, 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.

The Bank 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.

Borrowers in Stage 2 may be 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 38, the Bank 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.

Further details on forbearance are set out on page 38 and 39.

Credit risk mitigants *(audited)*

The perceived strength of a borrower's repayment capacity is the primary factor in granting a loan. However, the Bank 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.

AIB 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 obligation or commitment which has the potential to create interbank or country exposure.

3.1 Credit risk (continued)

Credit risk mitigants (continued)

Collateral *(audited)*

Credit risk mitigation may include a requirement to obtain collateral as set out in AIB 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. AIB Group maintains policies which detail the acceptability of specific classes of collateral.

The principal collateral types for loans and advances are mortgage/legal charge over residential real estate.

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.

Methodologies for valuing collateral *(audited)*

Details on the valuation rule methodologies applied and processes used to assess the value of property assets taken as collateral are described in AIB Group's Property Valuation Policy and Property Valuation Guidance. Both documents are subject to an annual review.

As mortgage loans comprise of all of the Bank's loans and advances portfolio, some key principles have been applied in respect of the valuation of property collateral held by the Bank.

The value of property collateral is assessed at loan origination and at certain stages throughout the credit lifecycle in accordance with the AIB Group Property Valuation Policy e.g. at annual review where required.

In accordance with the AIB Group Property Valuation Policy and Guidelines, the Bank employs a number of methods to assist in reaching appropriate valuations for property collateral held:

a. External valuation firms on the AIB Group's Valuers Panel, are engaged by the Bank to undertake valuations of immovable property collateral in accordance with the rules set out in the AIB Group Property Valuation Policy.
b. Internal valuations are completed by first line of defence case managers pursuant to the rules in the AIB Group Property Valuation Policy and in line with the AIB Group Property Valuation Guidance, which provides appropriate valuation methodology guidance, including the Index valuation approach – used for residential property.

Collateral and ECLs *(audited)*

Applying one or a combination of the above methodologies, in line with the AIB 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 within 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. buy-to-let, residential and also its location. The valuation arrived at is therefore, a function of the nature of the asset.

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.

Summary of risk mitigants by selected portfolios

Set out below are details of risk mitigants used by the Bank in relation to financial assets detailed in the maximum exposure to credit risk table on page 29.

Residential mortgages

For residential mortgages, the Bank 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. Details regarding the estimated fair value of collateral held for the Bank's residential mortgage portfolio are included under the residential mortgage section on page 36.

Derivatives *(audited)*

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 2023 amounted to €333m (2022: €742m) and those with a negative fair value are reported as liabilities which at 31 December 2023 amounted to nil (2022: nil).

3.1 Credit risk (continued)
Measurement, methodologies and judgements
Introduction *(audited)*
The Bank has set out the methodologies used and judgements exercised in determining its ECL allowance for the year to 31 December 2023.

The Bank, 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 AIB 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 and 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 loan commitments 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 *(audited)*
Under the standard, there are two bases of measurement:
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 *(audited)*
Financial assets are allocated to stages dependent on credit quality relative to when assets were originated. A financial asset can only originate in either Stage 1 or POCI.

Credit risk at origination *(audited)*
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 Bank became irrevocably committed to the contractual obligation and the account was first graded on an appropriate model.

For undrawn credit facilities, the Bank uses the date of origination as the date when it becomes party to the irrevocably contractual arrangements or irrevocable commitment.

The Bank 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.

3.1 Credit risk (continued)

Measurement, methodologies and judgements (continued)

Stage 1 characteristics *(audited)*

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 *(audited)*

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 Bank 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 *(audited)*

The Bank’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 Bank 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 Bank 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 Bank 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 85bps. The appropriateness of this threshold is kept under review by the Bank.

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

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

Backstop indicators: the Bank 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 *(audited)*

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

The key criteria resulting in a classification of default are:
- Where the Bank 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 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 AIB Group Definition of Default and Credit Impairment policy.

3.1 Credit risk (continued)

Measurement, methodologies and judgements (continued)

Purchased or originated credit impaired ('POCI') *(audited)*

POCIs are assets originated credit impaired and that have a discount to the contractual value when measured at fair value. The Bank 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 *(audited)*

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 Bank's IFRS 9 models have been developed and approved in line with AIB Group's Model Risk Management Framework. (An overview of credit risk models is outlined on page 18).

ii. Simplified approach: For portfolios not on the standard approach, the Bank 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 more reliance on the qualitative criteria (along with the 30 days past due back-stop).

iii. 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 collateralization (headroom) and should not result in a zero overall ECL unless there is sufficient headroom to support this. The key judgements in the 2023 year end ECL estimates are outlined in the post model adjustments section on page 28.

Effective interest rate *(audited)*

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 Bank 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 proxies remain appropriate and do not result in a material misstatement of the ECL.
- The Bank 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 *(audited)*

The Bank 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 Bank 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 Bank 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 loans and advances to banks, specifically, assets which have an internal grade equivalent to an external investment grade (BBB-) or higher.

3.1 Credit risk (continued)

Measurement, methodologies and judgements (continued)

Policy elections and simplifications (continued)

Low credit risk exemption (continued) *(audited)*

The Bank applies a quantitative backstop trigger of tripling of probability of default subject to a minimum threshold movement of 30bps to determine whether assets subject to the low credit risk exemption should be allocated to Stage 2. Additionally, if any of such assets are on a watch list based on agreed criteria, they are allocated to Stage 2.

IFRS 9 ECL Credit risk models *(audited)*

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 exposures on the standard approach to ECL.

Probability of default *(audited)*

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 *(audited)*

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 Bank (i.e. the exposure) and the net present value of future cash flows less any relevant costs expected to be incurred in the recovery process. If an account returns to performing from default (excluding any loss making concession) or if the discounted post-default recoveries are equal to or greater than the exposure, the realised loss is zero.

The LGD modelling approach depends on whether the facility has underlying security and, if so, the nature of that security.

The value of underlying property 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.

Exposure at default *(audited)*

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 *(audited)*

For term credit products, prepayment occurs where a customer fully prepays an account prior to the end of its contractual term.

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 *(audited)*

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 for term credit products is the contractual maturity date, with exposure and survival probability adjusted to reflect behaviour i.e. amortisation and prepayment.

3.1 Credit risk (continued)

Measurement, methodologies and judgements (continued)

Forward looking indicators in models *(audited)*

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' below 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 *(audited)*

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 Bank determines, based on specific criteria, the point at which, there is no reasonable expectation of recovery. When the following criteria exist, 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, all customer engagement with the Bank regarding their loan agreement has ceased.
- Inception of formal insolvency proceedings or receivership/other formal recovery action.
- 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). Further details on forbearance are set out on pages 38 and 39.

The contractual amount outstanding of loans written off during the year that are still subject to enforcement activity are outlined on page 35 and relate to non-contracted write-offs, both full and partial. The Bank 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.

Macroeconomic scenarios and weightings

The macroeconomic scenarios used by the Bank for the ECL calculation have been subject to the Bank’s established governance process covering the development and approval of macroeconomic scenarios used for planning and internal stress testing purposes. The macroeconomic scenarios are reviewed by the Asset and Liability Committee ('ALCo') regularly, and such reviews took place frequently during 2023 in response to economic developments. The scenarios are reviewed and approved by the AIB Board and also approved by the Bank's Board. The scenario probabilities are approved by the AIB Board Audit Committee (‘BAC’) and also by the Bank's Audit Committee.

The parameters used within the Bank'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:

The Irish economy recovered strongly from the ‘sudden stop’ to activity induced by the COVID-19 pandemic but has been buffeted by a further shock caused by the war in Ukraine which exacerbated an already growing inflation problem due to a surge in energy and food prices. A series of interest rate increases by central banks to curb inflationary pressures has generated a cost-of-living squeeze on households and raised operating costs for businesses. Amid an environment of weakening confidence levels and elevated uncertainty, global growth slowed sharply during 2022. The Irish economy has not been immune to these developments with GDP significantly impacted in 2023 whilst Modified Domestic Demand, a more appropriate measure of domestic activity, registered below-trend growth.

As part of the process of deriving an ECL calculation, a range of plausible scenarios was considered given the prevailing trends, emerging risks and uncertainties facing the domestic and global economies, as at the financial reporting date.

3.1 Credit risk (continued)

Measurement, methodologies and judgements (continued)

Macroeconomic scenarios and weightings (continued)

AIB Group has used four scenarios in the ECL calculation consisting of a base scenario, along with three alternative scenarios. The base case assumes that the global economy will experience a period of subdued growth amid continuing uncertainty regarding the outlook. Interest rates will gradually be reduced as inflation falls back towards target by 2026. The upside scenario considers the implications of an end to the war in Ukraine in the second half of 2024, improved consumer and business sentiment as well as a loosening of financial conditions. A moderate downside scenario assumes persistent inflation with higher-for-longer interest rates. In addition, the more severe downside considers an overly restrictive monetary policy tightening which quickly lowers inflation but, in the process, has a far more negative impact on economic activity than had been anticipated and exposes vulnerabilities in the financial system. These developments necessitate an aggressive series of cuts in official interest rates. Non-linear effects are captured in the development of risk parameters as well as through the inclusion of both the single upside and two downside scenarios.

AIB Group's Economic Research Unit ('ERU') provide the assumptions for each scenario over five years. These are then independently reviewed and challenged, on both a quantitative and qualitative basis, by AIB Group's Risk function. The base case is benchmarked against the outlook available from official sources (e.g., Central Bank of Ireland, IMF, ECB, 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 Bank's ALCo and approved by the AIB Board.

The scenarios used for the year-end ECL process are described below and reflect the views of the Bank as at the reporting date.

Base case: While fears of a recession have eased somewhat in many economies, the economic backdrop remains challenging with subdued global growth, stubborn inflation and interest rates that are expected to remain high over the medium term. Uncertainty also remains elevated due to the lagged impacts of the monetary tightening as well as other factors such as rising geopolitical risk.

The Irish economy has not been immune to this global slowdown during 2023 with multinational-related activities mostly affected. In the context of an under performance of GDP against expectations in 2023, AIB forecasts GDP growth to range from 3.5%-4.0% over the period 2024-2026, before decelerating to 3% by 2028. These estimates are broadly in line with official, institutional, and peer projections.

The unemployment rate in Ireland has approached near record lows with some sectors of the labour market characterised by a shortage of workers and a high rate of job vacancies. The unemployment rate is expected to rise moderately during the period 2024-2028 as economic growth ‘normalises’ following the rapid post-pandemic recovery. Inflation reached a 40-year high during 2023 but has moderated in recent months, helped by sharp declines in wholesale energy prices. However, core inflation remains ‘sticky’ and is expected to ease slowly. A similar pattern is also evident for the Euro Area as a whole and it is likely to be 2025 before inflation falls back to the 2% rate targeted by the European Central Bank.

House price inflation eased considerably in the past year in Ireland with rising interest rates, the cost-of-living squeeze and economic uncertainty acting as headwinds. While there has been a notable uptick in housing starts and completions over the course of 2023, ongoing housing supply shortfalls in addition to accumulated household savings will continue to support the market. Overall, modest growth in house prices is anticipated over the 2024-2028 period.

A gradual process of lowering official interest rates is expected to commence over the 2024-2025 period as inflation falls back towards target. However, over the period 2024-2028, rates are not expected to return to the historically lows levels of prior to the currently tightening cycle, as indicated by both futures contracts and central bank guidance.

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

3.1 Credit risk (continued)
Measurement, methodologies and judgements (continued)
Macroeconomic scenarios and weightings (continued)

In Ireland's case, GDP growth remains lacklustre at 1.3% in 2024 and 2% in 2025. GDP is 4.5% lower in Ireland compared to the base case by 2026. There is also a marked rise in unemployment, averaging 7.8% in 2026. The recession and sharp rise in unemployment eventually sees inflation move decidedly lower by late 2025/26. There are very big falls in property prices. Despite a recovery in the market by end-2026, house prices are almost 12.5% below base.

The ECB raises rates to 5.5% by mid-2025. Rates are then cut aggressively from Q4 2025 onwards (to 1% by early-2027) as inflation falls sharply before remaining on hold, as inflation stabilises around 2%.

Downside 2 ('Credit crunch'): In this scenario, monetary tightening has a far more negative impact on economic activity than had been anticipated by central banks, with higher interest rates exposing, inter alia, further vulnerabilities in the financial system during 2024. Banks take a far more cautious approach to lending activities, as they are hit by rising bad debts with global property prices falling sharply. The world economy experiences a credit crunch, with rising bad debts.

The lagged effects of the marked monetary tightening, in particular a sharp tightening in credit conditions, triggers a severe global recession in 2024-2025. Irish GDP contracts by 1.5% in both 2024 and 2025 and is 12.5% lower by 2026 than in the base case. There is a modest pick-up in global activity from 2026 onwards after interest rates are lowered aggressively in 2024-25 and inflation falls back to its 2% target.

The rate of unemployment rises quickly and to very high levels in the main economies while Irish unemployment reaches an average of 12.5% by 2027. Residential property prices in Ireland decline, in cumulative terms, by 24% over the 2024-2026 period, followed by only a slight recovery in the market during 2027-2028.

Central banks lower rates aggressively as economies enter a deep recession. Interest rates are reduced to 1% in the Eurozone by end-2025 and put on hold thereafter to end-2028, with inflation stabilising around 2%.

Upside ('Quick recovery'): In this more benign scenario, the economic environment improves following an end to the war in Ukraine in the second half of 2024 which helps boost business and consumer confidence. In addition, there is a faster than anticipated rundown of personal and corporate savings and a loosening of financial conditions. Global economic activity rebounds as a result. Irish GDP growth averages 5% in 2024-2025 and 4.5% in 2026 while unemployment falls to new record lows. With a more rapid pace of economic expansion, there is an uptick in inflation once again that is slower to decline than in the base case, gradually easing back to 2% by 2027-2028.

With the stronger growth in economic activity, Irish house prices perform much better than in the base case scenario rising by 4%-4.5% per annum over the 2024-2026 period.

Central banks continuing to raise official interest rates in 2024 with rates reaching much higher levels than in the base case peaking at 5.25% in the Euro Area. They are kept on hold at these levels until later in 2028.

The table below sets out the five year 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 2023 (average over 2024 - 2028) and at 31 December 2022 (average over 2023-2027).

	December 2023 5 year (2024-2028) average forecast				December 2022 5 year (2023-2027) average forecast			
Macroeconomic factor (%)	**Base**	**Downside 1 ('Persistent inflation')**	**Downside 2 ('Credit crunch')**	**Upside ('Quick recovery')**	Base	Downside 1 ('Lower growth in 2023')	Downside 2 ('Energy shock and persistently high inflation')	Upside ('Quick economic recovery')
Republic of Ireland								
GDP growth	**3.5**	**3.0**	**1.1**	**4.2**	3.6	3.4	2.6	4.3
Residential property price growth	**2.1**	**(0.5)**	**(4.7)**	**3.6**	2.5	0.2	(4.3)	3.8
Unemployment rate	**5.5**	**7.1**	**10.4**	**3.6**	5.0	6.8	8.5	3.9
Employment growth	**1.6**	**0.9**	**(0.6)**	**1.9**	1.6	1.1	0.2	1.9
Average disposable Income growth	**5.2**	**4.9**	**3.3**	**6.5**	5.1	4.3	3.4	6.0
Inflation	**2.3**	**3.3**	**2.1**	**3.4**	2.7	2.7	3.9	3.5

3.1 Credit risk (continued)

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, as at 31 December 2023.

	Estimate	Base					Downside 1				
Macroeconomic factor	2023 %	2024 %	2025 %	2026 %	2027 %	2028 %	2024 %	2025 %	2026 %	2027 %	2028 %
Republic of Ireland											
GDP growth*	1.0	3.7	4.0	3.5	3.2	3.0	1.3	2.0	3.2	4.0	4.5
Residential property price growth	(1.5)	1.0	2.0	2.5	2.5	2.5	(8.5)	(2.0)	3.0	2.5	2.5
Unemployment rate	4.5	5.1	5.3	5.6	5.7	5.8	5.2	6.9	7.8	8.0	7.7
Employment growth	2.9	1.8	1.7	1.6	1.6	1.5	0.5	(0.2)	0.7	1.3	2.0
Average disposable Income growth	7.7	6.8	5.7	4.6	4.6	4.5	6.8	5.0	4.5	4.2	4.0
Inflation	5.3	3.0	2.4	2.0	2.0	2.0	5.5	4.5	2.5	2.0	2.0

*The macroeconomic scenario assumptions presented in these tables were prepared in Q4 2023 using information available at the time. In the case of Irish GDP growth, subsequent data released by the CSO now indicates that GDP may have contracted for 2023 as a whole.

	Downside 2					Upside				
Macroeconomic factor	2024 %	2025 %	2026 %	2027 %	2028 %	2024 %	2025 %	2026 %	2027 %	2028 %
Republic of Ireland										
GDP growth	(1.5)	(1.5)	0.5	3.5	4.5	5.0	5.0	4.5	3.7	3.0
Residential property price growth	(12.0)	(13.0)	(1.0)	1.0	1.5	4.0	4.5	4.0	3.0	2.5
Unemployment rate	6.3	9.4	11.7	12.5	12.0	3.9	3.7	3.5	3.4	3.4
Employment growth	(1.1)	(2.5)	(1.7)	0.4	2.0	2.2	2.0	2.0	1.7	1.5
Average disposable Income growth	4.5	2.5	2.5	3.2	4.0	8.2	7.5	6.5	5.2	5.0
Inflation	2.6	2.0	2.0	2.0	2.0	5.5	4.0	3.0	2.5	2.0

The key changes to the scenario forecasts in the reporting period have been driven by a weaker global growth outlook (although the risk of recession in some advanced economies, such as the UK, has receded) as a result of weaker growth in the global labour force and increased geo-economic fragmentation with slower growth in world trade. In relation to the Irish economy, international headwinds have impacted headline GDP growth figures during 2023 with underlying domestic demand less affected. Important upward revisions to the Irish unemployment rate forecasts for the entire scenario horizon were required in late 2023 on foot of higher-than-expected trends in official data. This occurred despite strong employment growth and was explained by strong labour force growth driven by higher participation rates, particularly among women, and inward migration.

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 AIB Group's ERU. The probabilities described below reflect the views of the Bank at the reporting date.

The weights for the scenarios at the reporting date are derived based on expert judgement, but informed by quantitative analysis (e.g., early warning indicators of economic activity and property market values) and external market information where possible.

3.1 Credit risk (continued)
Measurement, methodologies and judgements (continued)
Macroeconomic scenarios and weightings (continued)

The key drivers of the weightings at the reporting date are:

- The base scenario assumptions for global growth remain very subdued when viewed in a historical context. Estimates of headline GDP growth in 2023 for Ireland have been scaled back, reflecting a big decline in output from the pharma and ICT sectors after a COVID-19 related surge in 2021-22, while UK and US growth has been revised upwards relative to the half-year outlook. For the period 2024-2026, the Irish GDP growth forecast remains unchanged compared to mid-year and is aligned with official forecasts.
- With regard to the scenario probability weightings, the risks to growth remain very much to the downside as highlighted in recent commentary from institutions such as the OECD, IMF, ECB, and Central Bank of Ireland. Many economies, particularly in Europe, have lost momentum and central banks have indicated that interest rates may have to remain higher for longer in order to restore price stability given fears that core inflation may prove persistent.
- A sharper than expected slowdown in China is a significant risk also, especially if the real estate crisis deepens further. Geo-political risks remain elevated and have been exacerbated by the conflict in Gaza, while the outcome of the US presidential election at the end of 2024 could add to global uncertainty.
- Despite these downside risks, compared to December 2022, the more substantial risks to the downside have somewhat alleviated due to a lower impact from tighter monetary policy than previously anticipated. Hence the weighting associated with the Downside 2 scenario has reduced from 15% to 10%.

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

Scenario *(audited)*	**Weighting 31 December 2023**		Weighting 31 December 2022
Base	**50%**	Base	45 %
Downside 1 ('Persistent inflation')	**30%**	Downside 1 ('Lower growth in 2023')	30 %
Downside 2 ('Credit crunch')	**10%**	Downside 2 ('Energy shock and persistently high inflation')	15 %
Upside ('Quick recovery')	**10%**	Upside ('Quick economic recovery')	10 %

In assessing the adequacy of the ECL allowance, the Bank has considered all available forward-looking information as of the balance sheet date in order to estimate the future expected credit losses. The Bank, 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 Bank's expectation, the Bank's estimate of ECL would increase accordingly.

3.1 Credit risk (continued)

Measurement, methodologies and judgements (continued)

Sensitivities *(audited)*

The Bank'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 provide an indication of ECL movements that include changes in model estimates, and quantitative 'significant increase in credit risk' ("SICR") staging assignments, with a single 100% weighting applied individually. Increased sensitivity for the downside 2 'Credit crunch' scenario is evident in the 2023 sensitivities compared to reported and 100% base, driven predominantly by underlying model and staging sensitivities (including a redeveloped mortgage model suite across all key risk parameters, some more negative macro assumptions and an element of macro sensitive PMA allocation where relevant). Further details on post model adjustments are outlined on page 28.

Relative to the base scenario, in the 100% downside 'Persistent inflation' and 'Credit crunch' scenarios, the ECL allowance increases by 12% and 41% respectively. In the 100% upside scenario, the ECL allowance declines by 10%, showing that the ECL impact of the two downside scenarios is greater than that of the upside scenario. At 31 December 2023, a 100% downside 'Persistent inflation' and 'Credit crunch' scenarios sees a higher ECL allowance sensitivity of €13m and €45m respectively compared to base (€7m and €39m respectively compared to reported).

	ECL allowance at 31 December 2023				
	Reported	**100% Base**	**100% Downside 1 ('Persistent inflation')**	**100% Downside 2 ('Credit crunch')**	**100% Upside ('Quick recovery')**
	Total	**Total**	**Total**	**Total**	**Total**
Loans and advances to customers *(audited)*	**€m**	**€m**	**€m**	**€m**	**€m**
Residential mortgages	**115**	**109**	**122**	**153**	**98**
Total	**115**	**109**	**122**	**153**	**98**
Off-balance sheet loan commitments	**—**	**—**	**—**	**1**	**—**
	115	**109**	**122**	**154**	**98**

	ECL allowance at 31 December 2022				
	Reported	100% Base	100% Downside 1 ('Lower growth in 2023')	100% Downside 2 ('Energy shock and persistently high inflation')	100% Upside ('Quick economic recovery')
	Total	Total	Total	Total	Total
Loans and advances to customers *(audited)*	€m	€m	€m	€m	€m
Residential mortgages	111	109	112	128	107
Total	111	109	112	128	107
Off-balance sheet loan commitments	—	—	—	—	—
	111	109	112	128	107

3.1 Credit risk (continued)

Measurement, methodologies and judgements (continued)

Post model adjustments *(audited)*

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 is considered against the backdrop of the risk profile of the loan book, recent loss history or changes in underlying resolution strategies not captured in the models and management's view of emerging trends. Releases of PMAs may occur as new models are deployed (i.e. mortgage model) or where the risk has been judged by management to be captured in the model outcomes.

The PMAs approved for 31 December 2023 (and 2022 comparison, where applicable), are set out below and categorised as follows:

- NPE resolution – ECL adjustments where the current model does not take into account downside risks that should be 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 such as inflation and higher interest rates.
- Macroeconomic factors – ECL adjustments reflecting a greater impact from downside scenarios / impact of certain macroeconomic factors.

Post model adjustments *(audited)*	**2023** **€m**
NPE resolution	**23**
Emerging headwinds	**5**
PMA total	**28**

Post model adjustments *(audited)*	2022 €m
NPE resolution	46
Emerging headwinds	31
Macroeconomic factors	8
PMA total	85

NPE resolution *(audited)*

The redeveloped IFRS 9 mortgage model was deployed in 2023 and now incorporates portfolio sales as a potential NPE resolution mechanism. The enhancements to the model resulted in an increase in modelled ECL which allowed for the release of substantially all the mortgage NPE resolution PMA held at 31 December 2022 to reflect potential sales outcomes not captured in the model.

A new PMA of €23 million was implemented at 31 December 2023 on Stage 3 mortgages, primarily to address potential ECL underestimation from higher yields in the current interest rate environment impacting portfolio sale assumptions within the mortgage model and uncertainty of the timing to transact NPE mortgage portfolio sales.

Emerging headwinds *(audited)*

Particular focus from management continues to be on assessing portfolios impacted by the combined effects of cost of living challenges, persistent inflationary pressures and the higher interest rate environment on customers' ability to repay. The ultimate impact of these effects is highly uncertain, however should they lead to a reduction in customer's ability to meet their loan repayment obligations, there will be an increase in credit risk which is expected to have a negative impact on the asset quality of the mortgage portfolio.

A PMA of €31 million from 2022 has been reduced by €26 million, with €5 million retained to ensure appropriate cover is provided against downside risks as fixed rate mortgage contracts roll off over the next 3 years.

Macroeconomic factors *(audited)*

An ECL adjustment of €8 million at 31 December 2022 to reflect limitations within the mortgage model relating to the house price index ('HPI') growth, has been released following deployment of the new IFRS 9 mortgage model.

3.1 Credit risk (continued)

Credit exposure overview

Maximum exposure to credit risk *(audited)*

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. For loan commitments that are irrevocable over the life of the facility, it is generally the full amount of the committed facility.

Credit risk exposure derives from standard on-balance sheet products such as mortgages. In addition, credit risk arises from other products and activities including "off-balance sheet" commitments.

The following table sets out the maximum exposure to credit risk that arises within the Bank 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 2023 and 2022:

(audited)			**2023**			2022
	Amortised cost[(1)]	**Fair value**[(2)]	**Total**	Amortised cost[(1)]	Fair value[(2)]	Total
	€m	**€m**	**€m**	€m	€m	€m
Derivative financial instruments	**—**	**333**	**333**	—	742	742
Loans and advances to banks	**80**	**—**	**80**	50	—	50
Loans and advances to customers	**18,038**	**—**	**18,038**	17,746	—	17,746
Included elsewhere:						
Accrued interest	**31**	**—**	**31**	23	—	23
	18,149	**333**	**18,482**	17,819	742	18,561
Off balance sheet loan commitments[(3)]	**723**	**—**	**723**	707	—	707
Maximum exposure to credit risk	**18,872**	**333**	**19,205**	18,526	742	19,268

[(1)]All amortised cost items are loans and advances 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'.
[(3)]A commitment is an off-balance sheet product, where there is an agreement to provide an undrawn credit facility.

The following table summarises financial instruments in the statement of financial position at 31 December 2023 and 2022:

(audited)				**2023**				2022
	Statement of financial position			**Income statement**	Statement of financial position			Income statement
	Exposure	**ECL allowance**	**Carrying amount**	**Net credit impairment charge**	Exposure	ECL allowance	Carrying amount	Net credit impairment writeback
	€m	**€m**	**€m**	**€m**	€m	€m	€m	€m
Loans and advances to banks	**80**	**—**	**80**	**—**	50	—	50	—
Loans and advances to customers	**18,153**	**(115)**	**18,038**	**(5)**	17,857	(111)	17,746	3
	18,233	**(115)**	**18,118**	**(5)**	17,907	(111)	17,796	3
Loan commitments	**723**	**—**	**723**	**—**	707	—	707	—
Total	**18,956**	**(115)**	**18,841**	**(5)**	18,614	(111)	18,503	3

Risk management report

3.1 Credit risk (continued)

Credit profile of the loan portfolio

The following table analyses loans and advances to customers at amortised cost by ECL staging at 31 December 2023 and 2022:

Amortised cost *(audited)*

			2023			2022
	Owner occupier	**Buy-to-let**	**Total**	Owner occupier	Buy-to-let	Total
Gross loans and advances to customers	**€m**	**€m**	**€m**	€m	€m	€m
Total gross carrying amount	**17,223**	**930**	**18,153**	16,688	1,169	17,857
Analysed as to ECL staging						
Stage 1	**16,156**	**784**	**16,940**	15,975	1,032	17,007
Stage 2	**870**	**105**	**975**	528	89	617
Stage 3	**183**	**39**	**222**	170	46	216
POCI	**14**	**2**	**16**	15	2	17
Total	**17,223**	**930**	**18,153**	16,688	1,169	17,857
ECL allowance - statement of financial position						
Stage 1	**7**	**1**	**8**	25	—	25
Stage 2	**26**	**3**	**29**	18	1	19
Stage 3	**62**	**15**	**77**	52	13	65
POCI	**1**	**—**	**1**	2	—	2
Total	**96**	**19**	**115**	97	14	111
ECL allowance cover percentage	**%**	**%**	**%**	%	%	%
Stage 1	**0.1**	**0.1**	**0.1**	0.2	—	0.1
Stage 2	**3.0**	**3.3**	**3.0**	3.3	1.5	3.1
Stage 3	**34.1**	**38.0**	**34.8**	30.7	28.4	30.2
POCI	**3.8**	**—**	**4.2**	10.4	—	12.2
Income statement	**€m**	**€m**	**€m**	€m	€m	€m
Net remeasurement of ECL allowance	**4**	**4**	**8**	20	(15)	5
Recoveries of amounts previously written-off	**(1)**	**(2)**	**(3)**	(5)	(3)	(8)
Net credit impairment charge/ (writeback)	**3**	**2**	**5**	15	(18)	(3)

3.1 Credit risk (continued)
Credit profile of the loan portfolio (continued)

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 2023 and 2022:

Amortised cost *(audited)*

	Stage 1	Stage 2	Stage 3	POCI	2023 Total
	€m	€m	€m	€m	€m
Strong	13,640	116	—	—	13,756
Satisfactory	3,181	513	—	4	3,698
Total strong/satisfactory	16,821	629	—	4	17,454
Criticised watch	119	272	—	2	393
Criticised recovery	—	74	—	6	80
Total criticised	119	346	—	8	473
Non performing	—	—	222	4	226
Gross carrying amount	16,940	975	222	16	18,153
ECL allowance	(8)	(29)	(77)	(1)	(115)
Carrying amount	16,932	946	145	15	18,038

Amortised cost *(audited)*

	Stage 1	Stage 2	Stage 3	POCI	2022 Total
	€m	€m	€m	€m	€m
Strong	13,288	164	—	—	13,452
Satisfactory	3,538	88	—	2	3,628
Total strong/satisfactory	16,826	252	—	2	17,080
Criticised watch	179	248	—	—	427
Criticised recovery	2	117	—	11	130
Total criticised	181	365	—	11	557
Non performing	—	—	216	4	220
Gross carrying amount	17,007	617	216	17	17,857
ECL allowance	(25)	(19)	(65)	(2)	(111)
Carrying amount	16,982	598	151	15	17,746

Gross loans and advances to customers
Gross loans and advances to customers increased by €296m to €18,153m in the year to 31 December 2023. This increase was driven by new lending activity of €2,228m (2022: €2,876m) and other movements of €6m, offset by redemptions net of interest credited of €1,938m.

Stage 2 loans increased by €358m to €975m. The increase was primarily driven by the implementation of the redeveloped mortgage model.

Stage 3 loans increased by €6m to €222m. The Stage 3 increase was primarily driven by net flow to Stage 3 of €53m, offset by repayments net of interest credited of €39m and other balance sheet movements of €8m

Of the total loans to customers of €18,153m, €17,454m or 96% are rated as either 'strong' or 'satisfactory' which is an increase of €374m (2022: €17,080m). The 'criticised' classification includes 'criticised watch' of €393m and 'criticised recovery' of €80m, the total of which has decreased by €84m. The increase in loans classified as 'strong' and decrease in volume of 'criticised watch' is primarily driven by new lending and improved credit quality. Overall, the total performing book has increased by €290m to €17,927m of gross loans and advances to customers (2022: €17,637m).

3.1 Credit risk (continued)
Credit profile of the loan portfolio (continued)

ECL allowance

The ECL allowance on loans and advances to customers increased by €4m to €115m in the 12 months to 31 December 2023. The increase was predominately due to a net credit impairment charge which includes the impact of macroeconomic scenario and probability weight updates, post model adjustments and net ECL remeasurement, partially offset by other balance sheet ECL reductions. The ECL cover rate of 0.6% at 31 December 2022 has remained unchanged at 31 December 2023.

Non-performing loans

The table below sets out the Bank's non-performing loans and advances to customers at 31 December 2023 and 2022:

Non-performing loans	2023 €m	2022 €m
At amortised cost	226	220
Total non-performing loans and advances to customers	**226**	220
Non-performing loans as a % of total loans and advances to customers	**1.2 %**	1.2 %
ECL allowance as a % of total loans and advances to customers carried at amortised cost	**34.3 %**	30.5 %

Non-performing loans have increased by €6m to €226m or 1.2% of loans and advances to customers (2022: €220m and 1.2%).

3.1 Credit risk (continued)
Credit profile of the loan portfolio (continued)

Gross loans[1] and ECL movements *(audited)*
The following tables set out the movements in the gross carrying amount and ECL allowances for loans and advances to customers at amortised cost by ECL staging for the years to 31 December 2023 and 2022.

Amounts that triggered movements between Stage 1 and Stage 2 as a result of failing/curing a quantitative measure only (as disclosed on page 19) 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 Bank believes this presentation aids the understanding of underlying credit migration.

Gross carrying amount movements *(audited)*

					2023
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**
At 1 January	**17,007**	**617**	**216**	**17**	**17,857**
Transferred from Stage 1 to Stage 2	**(494)**	**494**	**—**	**—**	**—**
Transferred from Stage 2 to Stage 1	**411**	**(411)**	**—**	**—**	**—**
Transferred to Stage 3	**(17)**	**(76)**	**93**	**—**	**—**
Transferred from Stage 3	**—**	**40**	**(40)**	**—**	**—**
New loans originated/top-ups	**2,228**	**—**	**—**	**—**	**2,228**
Redemptions/repayments	**(2,325)**	**(113)**	**(44)**	**(3)**	**(2,485)**
Interest credited	**512**	**29**	**5**	**1**	**547**
Write-offs	**—**	**—**	**(6)**	**—**	**(6)**
Impact of model, parameter and overlay changes	**(391)**	**391**	**—**	**—**	**—**
Other movements	**9**	**4**	**(2)**	**1**	**12**
At 31 December	**16,940**	**975**	**222**	**16**	**18,153**

					2022
	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
At 1 January	15,917	787	356	20	17,080
Transferred from Stage 1 to Stage 2	(572)	572	—	—	—
Transferred from Stage 2 to Stage 1	642	(642)	—	—	—
Transferred to Stage 3	(16)	(67)	83	—	—
Transferred from Stage 3	1	74	(75)	—	—
New loans originated/top-ups	2,876	—	—	—	2,876
Redemptions/repayments	(2,242)	(118)	(58)	(3)	(2,421)
Interest credited	387	13	9	1	410
Write-offs	—	—	(5)	—	(5)
Derecognised due to disposals	(1)	(7)	(87)	(1)	(96)
Other movements	15	5	(7)	—	13
At 31 December	17,007	617	216	17	17,857

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

3.1 Credit risk (continued)
Credit profile of the loan portfolio (continued)

Gross loans and ECL movements (continued)
ECL allowance movements *(audited)*

	Stage 1	Stage 2	Stage 3	POCI	2023 Total
	€m	€m	€m	€m	€m
At 1 January	**25**	**19**	**65**	**2**	**111**
Transferred from Stage 1 to Stage 2	(1)	8	—	—	7
Transferred from Stage 2 to Stage 1	2	(2)	—	—	—
Transferred to Stage 3	—	(3)	7	—	4
Transferred from Stage 3	—	1	(2)	—	(1)
Net re-measurement	2	—	17	(1)	18
New loans originated/top-ups	2	—	—	—	2
Redemptions/repayments	(1)	(2)	—	—	(3)
Impact of model and overlay changes	(20)	8	(3)	(1)	(16)
Impact of credit or economic risk parameters	(1)	—	(2)	—	(3)
Income statement credit impairment (writeback)/charge	**(17)**	**10**	**17**	**(2)**	**8**
Write-offs	—	—	(6)	—	(6)
Derecognised due to disposals	—	—	—	—	—
Other movements	—	—	1	1	2
At 31 December	**8**	**29**	**77**	**1**	**115**

	Stage 1	Stage 2	Stage 3	POCI	2022 Total
	€m	€m	€m	€m	€m
At 1 January	17	18	102	7	144
Transferred from Stage 1 to Stage 2	(1)	6	—	—	5
Transferred from Stage 2 to Stage 1	4	(9)	—	—	(5)
Transferred to Stage 3	—	(1)	3	—	2
Transferred from Stage 3	—	6	(16)	—	(10)
Net re-measurement	1	7	2	(1)	9
New loans originated/top-ups	1	—	—	—	1
Redemptions/repayments	—	(1)	—	—	(1)
Impact of model and overlay changes	3	(6)	7	(3)	1
Impact of credit or economic risk parameters	—	1	2	—	3
Income statement net credit impairment charge/(writeback)	8	3	(2)	(4)	5
Write-offs	—	—	(6)	—	(6)
Derecognised due to disposals	—	(2)	(30)	—	(32)
Other movements	—	—	1	(1)	—
At 31 December	25	19	65	2	111

3.1 Credit risk (continued)
Credit profile of the loan portfolio (continued)

Gross loans and ECL movements (continued) *(audited)*
Stage transfers are a key component of ECL allowance movements (i.e. Stage 1 to Stage 2 to Stage 3) being the primary driver of a higher income statement charge (and vice versa) in addition to the net remeasurement of ECL due to change in risk parameters within a stage.

Transfers from Stage 1 to Stage 2 of €494m represent the underlying credit 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. The main driver of movements to Stage 2 was the doubling of PD since loan origination, subject to a minimum 85bps increase. Impact of models, parameter and overlay changes due to the implementation of the redeveloped mortgage model resulted in a further €391m transfer from Stage 1 to Stage 2.

Similarly, transfers from Stage 2 to Stage 1 of €411m 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.

Transfers to Stage 3 of €93m represent those loans that defaulted during the period. These arose in cases where it was determined that the customers were unlikely to pay their credit obligations 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.

Transfers from Stage 3 to Stage 2 of €40m 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.

Reductions due to write-offs continues to reflect the utilisation of ECL stock as a result of the restructure of customer debt in line with the Bank’s strategy.

The contractual amount outstanding of loans written-off during the year that are subject to enforcement activity amounted to €2m (2022: €1m) which includes both full and partial write-offs. Total cumulative non-contracted loans written-off at 31 December 2023 amounted to €39m (2022: €38m).

In summary, the staging movements of the overall portfolio were as follows:

Stage 1 loans decreased by €67m in 2023 to €16,940m with an ECL of €8m and resulting cover of 0.05%. This decrease in Stage 1 loans was primarily due to impact of models, parameter and overlay changes which increased Stage 2 loans offset by new lending activity exceeding the impact of repayments/redemptions net of interest charged.

Stage 2 loans increased by €358m in 2023 to €975m with an ECL of €29m and resulting cover of 3.0%. This was primarily driven by impact of models, parameter and overlay changes due to the implementation of the redeveloped mortgage model which increased Stage 2 loans offset by repayments or redemptions and loans for which a significant increase in credit risk no longer applied and/or which had completed a probation period.

Stage 3 loans increased by €6m in 2023 to €222m with the ECL cover increasing from 30.2% to 34.8%. The increase in Stage 3 reflects net flow to non-performing loans, offset by repayments.

3.1 Credit risk (continued)
Asset class analysis

Loans and advances to customers - residential mortgages

The following table shows the estimated fair value of collateral held for residential mortgages at 31 December 2023 and 2022. The value at 31 December 2023 and 2022 is estimated based on property values at origination or date of latest valuation and applying the CSO Residential Property Price Index to these values to take account of price movements in the interim.

					2023
	Measured at amortised cost				
	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
Fully collateralised[(1)]					
Loan-to-value ratio:					
Less than 50%	**8,829**	**635**	**152**	**12**	**9,628**
50% - 70%	**4,940**	**260**	**51**	**2**	**5,253**
71% - 80%	**1,411**	**46**	**8**	**—**	**1,465**
81% - 90%	**1,197**	**25**	**4**	**—**	**1,226**
91% - 100%	**538**	**3**	**3**	**—**	**544**
	16,915	**969**	**218**	**14**	**18,116**
Partially collateralised					
Collateral value relating to loans over 100% loan-to-value	**12**	**3**	**1**	**—**	**16**
Total collateral value	**16,927**	**972**	**219**	**14**	**18,132**
Gross residential mortgages	**16,940**	**975**	**222**	**16**	**18,153**
ECL allowance	**(8)**	**(29)**	**(77)**	**(1)**	**(115)**
Carrying value residential mortgages	**16,932**	**946**	**145**	**15**	**18,038**

					2022
	Measured at amortised cost				
	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
Fully collateralised[(1)]					
Loan-to-value ratio:					
Less than 50%	9,310	404	143	12	9,869
50% - 70%	5,331	179	52	3	5,565
71% - 80%	1,364	17	11	—	1,392
81% - 90%	897	8	1	—	906
91% - 100%	72	1	1	—	74
	16,974	609	208	15	17,806
Partially collateralised					
Collateral value relating to loans over 100% loan-to-value	17	5	5	—	27
Total collateral value	16,991	614	213	15	17,833
Gross residential mortgages	17,007	617	216	17	17,857
ECL allowance	(25)	(19)	(65)	(2)	(111)
Carrying value residential mortgages	16,982	598	151	15	17,746

[(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 the financial year end.

3.1 Credit risk (continued)
Asset class analysis (continued)

Loans and advances to customers - residential mortgages

Income statement

There was a net credit impairment charge of €5m to the income statement for the year to 31 December 2023 compared to a writeback of €3m for 2022. This comprises a net remeasurement of ECL allowance charge of €8m and recoveries of previously written-off loans of €3m.

The components which contributed to the net remeasurement of ECL allowance charge of €8m were a charge of €30m for ECL net remeasurement, stage transfers and new lending, partially offset by a writeback of €22m for impact of updated macroeconomic scenarios, probability weightings, post model adjustments and repayments

Further details on post model adjustments are outlined on pages 28. The ECL allowance movements are outlined on page 34.

Residential mortgage arrears

Total loans in arrears > 30 days past due (including non-performing loans) by value of the portfolio increased to 0.72% at 31 December 2023 from 0.59% at 31 December 2022. This €25m increase was mainly driven by arrears on the Tracker Mortgage portfolio.

Indexed loan to value ratios of residential mortgages *(audited)*

The following table profiles the residential mortgage portfolio by the indexed loan-to-value ratios and the weighted average loan-to-value ratios at 31 December 2023 and 2022

(audited)					**2023**					2022
	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
Less than 80%	**15,189**	**942**	**211**	**14**	**16,356**	16,015	603	206	15	16,839
81% - 100%	**1,735**	**28**	**7**	**—**	**1,770**	968	8	6	—	982
100% - 120%	**7**	**1**	**1**	**—**	**9**	10	3	—	—	13
Greater than 120%	**8**	**3**	**1**	**—**	**12**	12	2	2	—	16
Total LTVs	**16,939**	**974**	**220**	**14**	**18,147**	17,005	616	214	15	17,850
Unsecured	**1**	**1**	**2**	**2**	**6**	2	1	2	2	7
Total	**16,940**	**975**	**222**	**16**	**18,153**	17,007	617	216	17	17,857
Of which:										
Owner occupier										
Less than 80%	**14,423**	**841**	**179**	**13**	**15,456**	15,003	517	165	14	15,699
81% - 100%	**1,722**	**27**	**2**	**—**	**1,751**	956	7	4	—	967
100% - 120%	**5**	**1**	**1**	**—**	**7**	8	3	—	—	11
Greater than 120%	**5**	**1**	**1**	**—**	**7**	6	1	—	—	7
Total LTVs	**16,155**	**870**	**183**	**13**	**17,221**	15,973	528	169	14	16,684
Unsecured	**1**	**—**	**—**	**1**	**2**	1	—	1	1	3
Total	**16,156**	**870**	**183**	**14**	**17,223**	15,974	528	170	15	16,687

The weighted average indexed loan-to-value of the stock of residential mortgages at 31 December 2023 was 49%, new residential mortgages issued during the year was 72% and Stage 3 residential mortgages was 41%.

The weighted average indexed loan-to-value of the stock of residential mortgages at 31 December 2022 was 47%, new residential mortgages issued during the year was 65% and Stage 3 residential mortgages was 43%.

3.1 Credit risk (continued)

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 credit obligations to the Bank 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 Bank uses a range of initiatives to support its customers. The Bank considers requests from customers who are experiencing cash flow difficulties on a case by case basis in line with AIB 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 sustainable measures are put in place.

AIB Group's credit policies, supported by relevant processes and procedures, are in place which set out the policy rules and principles underpinning the Bank’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 providing support to enable customers remain in their family home, whenever possible. The Bank 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 Bank 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 Bank and the customer.

Mortgage portfolio

Under the mandate of the Central Bank’s Code of Conduct on Mortgage Arrears ('CCMA'), the Bank 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 – We use 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, mortgage to rent, voluntary sale for loss, and negative equity trade down.

3.1 Credit risk (continued)
Additional credit quality and forbearance disclosures on loans and advances to customers

Forbearance (continued)

The following table sets out the internal credit ratings and ECL staging of forborne loans and advances to customers at 31 December 2023 and 2022:

	2023 £m	2022 £m
Analysed by forbearance type		
Temporary forbearance[1]	125	155
Permanent forbearance[2]	85	115
	210	270
Analysed by internal credit ratings		
Strong	—	—
Satisfactory	—	—
Total strong/satisfactory	—	—
Criticised Watch	—	—
Criticised Recovery	79	130
Total criticised	79	130
Non-performing	131	140
Gross carrying amount	210	270
Analysed by ECL staging		
Stage 1	—	2
Stage 2	73	117
Stage 3	127	137
POCI	10	14
Total	210	270
ECL allowance	46	48

[1]Of which: interest only €35m, payment moratorium €51m, reduced payment €37m. (2022: interest only €56m, payment moratorium €53m, reduced payment €41m).
[2]Of which: arrears capitalisation and term extension €59m, split loan €9m. (2022: arrears capitalisation and term extension €74m, split loan €14m).

Loans and advances to customers subject to forbearance measures decreased by €60m to €210m at 31 December 2023 (2022: €270m). The decrease was due to accounts exiting forbearance during the year. The Bank continues to closely monitor the residential mortgage portfolio for potential latent risk resulting from macroeconomic factors including cost of living and interest rate increases.

3.2 Liquidity and funding risk

Liquidity risk is the risk that the Bank 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.

The Bank's liquidity risk is managed as part of the overall AIB Group liquidity management. In accordance with the Capital Requirements Regulation ('CRR2'), the Bank has appointed AIB as its liquidity manager to fulfil daily cash flow management, oversee any changes required in liquidity management or reporting and manage the Bank's liquidity risk as part of the overall AIB Group liquidity risk management process. Under this centralised approach the management of liquidity and related activities for the Bank is integrated with its parent AIB which is a wholly owned subsidiary of AIB Group.

The means by which these liquidity management activities are performed, and the procedures by which AIB ensures the Bank complies with AIB Group's Funding and Liquidity Risk Policy are managed through a Service Level Agreement ('SLA')).

The Bank is authorised to fund the assets it holds through the following forms of funding:

- the issuance of Mortgage Covered Securities in accordance with the Asset Covered Securities Act, as amended by the Asset Covered Securities Amendment Act, 2007 (the "Act");
- borrowing funds from the parent AIB;
- borrowing from the Central Bank under a Mortgage-Backed Promissory Note (short term) facility ('MBPN Facility') and other funding from the Central Bank under facilities which may be available to the Bank from time to time; and
- capital funding to ensure at a minimum compliance with the capital adequacy requirements of the Single Supervisory Mechanism ('SSM').

If utilised, the MBPN Facility would be secured by a floating charge over a pool of the Bank's home loans and related security which would be separate to the Pool (that secures the Mortgage Covered Securities) maintained by the Issuer in accordance with the Act.

Identification and assessment

Liquidity and funding risk is identified and assessed by the Bank's Material Risk Assessment ('MRA') process in support of AIB Group 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 Bank, 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 AIB Group. Embedding of the ILAAP group wide is facilitated through the setting of risk appetite, liquidity and funding planning and the dynamic review thereof in light of key strategic decisions.

The Bank adheres to AIB Group's comprehensive ILAAP Framework for managing liquidity risk and complying with AIB Group and the Bank's Board 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 *(audited)*

The objective of liquidity management is to ensure that, at all times, the Bank 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 across AIB Group. These include:

- Adherence to both internal limits and regulatory defined liquidity ratios;
- Performing a multiyear projection of AIB Group's funding sources taking into account its baseline scenario, strategy and operational plans as outlined in the AIB Group Funding and Liquidity Plan. The purpose of this Plan is to set out a comprehensive, forward looking liquidity and funding strategy for AIB 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 AIB Group in deteriorating liquidity conditions and emerge from a temporary liquidity crisis as a credit worthy institution;
- A further set of triggers and liquidity options outlined in the AIB Group Recovery Plan, which presents the actions available to AIB Group to restore viability in the event of extreme stress.

3.2 Liquidity and funding risk (continued)

Monitoring, escalating and reporting

The Bank's liquidity and funding position is reported on a regular basis to the Bank's management team and Board. In addition, it is reported as part of the overall AIB Group position to the AIB Group Asset and Liability Committee ('ALCo'), the AIB Group Risk Committee ('GRC'), the AIB Group Executive Committee ('ExCo'), the AIB Group Board Risk Committee ('BRC'), and the AIB Group Board.

On an annual basis, the AIB Group Board attests to AIB Group's liquidity adequacy via the liquidity adequacy statement as part of the ILAAP. The AIB Group 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.

Liquidity risk stress testing

Liquidity stress testing is a key component of AIB Group's ILAAP framework. The purpose of these tests is to ensure the continued stability of AIB Group's liquidity position within pre-defined liquidity risk tolerance levels. The Bank, as part of AIB Group, undertakes liquidity risk 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 AIB Group's liquidity buffer and liquidity risk drivers. This estimates the potential impact of a range of stress scenarios on AIB 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 AIB Group ALCo, AIB Group ExCo and AIB Group Board.

Encumbrance

An asset is defined as encumbered if it has been pledged as collateral and as a result is no longer available to the Bank to secure funding, satisfy collateral needs or to be sold. As part of managing its funding requirements, the Bank encumbers assets as collateral to support its wholesale funding initiatives which are predominantly covered bonds secured over customer loans. The Bank's encumbrance ratio increased to 67% at 31 December 2023 (2022: 56%) in line with covered bond issuances. The encumbrance level is based on the amount of assets that are required in order to meet regulatory and contractual commitments.

Financial liabilities by undiscounted contractual maturity *(audited)*

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

(audited)						2023
	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
Deposits by banks	6,874	—	—	—	—	6,874
Debt securities in issue	—	827	1,042	6,854	2,056	10,779
Subordinated liabilities	200	1	3	10	106	320
Other financial liabilities	27	—	—	—	—	27
Total	**7,101**	**828**	**1,045**	**6,864**	**2,162**	**18,000**
Off-balance sheet loan commitments	723	—	—	—	—	723

3.2 Liquidity and funding risk (continued)

Financial liabilities by undiscounted contractual maturity *(audited)*

(audited)						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
Deposits by banks	8,578	—	—	—	—	8,578
Debt securities in issue	—	1,000	500	5,250	1,524	8,274
Subordinated liabilities	—	—	—	—	300	300
Other financial liabilities	22	—	—	—	—	22
Total	8,600	1,000	500	5,250	1,824	17,174
Off-balance sheet loan commitments	707	—	—	—	—	707

3.3 Market risk

The Bank is exposed to interest rate risk resulting from positions held in the banking book - the Bank does not operate a trading book. Interest rate risk is the current or prospective risk to both the earnings and capital of the Bank as a result of adverse movements in interest rates. Changes in interest rates impact the underlying value of the assets, liabilities and off-balance sheet instruments and, hence, its economic value (or capital position). Similarly, interest rate changes will impact the Bank's net interest income through interest-sensitive income and expense effects.

The Bank is exposed to interest rate risk arising from mortgage lending activities and the issuance of Mortgage Covered Securities. Interest rate swaps, as explained in the paragraphs below, are used to manage this exposure. The Bank is not allowed to engage in proprietary trading under the conditions of the Asset Covered Securities Act and its license. As per the Asset Covered Securities Act, the Bank is required to ensure its sensitivity to interest rate earnings changes under a number of specified scenarios (+/- 100bps parallel and twist shocks) stays below 10% of equity.

The Bank manages this requirement by converting all liability and asset interest rate sensitivity to short term floating rates i.e. it ensures the timing of asset and liability repricing schedules are matched. On the liability side, Internally Issued ACS are issued at spreads to Euribor, which re-price monthly and intercompany funding is also re-priced monthly in reference to Euribor. External ACS issuance is issued at fixed rates in line with market practice and interest rate swaps with AIB are used to convert the interest rate re-pricing profile for this issuance to short term floating Euribor. Fair value hedge accounting is applied to ensure no volatility in earnings.

The interest rate exposure of the Bank relating to its residential lending is managed using interest rate swaps with AIB, one of which, the Pool Hedge, relates only to the Pool and the other of which, the Non-Pool Hedge, relates only to Irish residential loans which are not included in the Pool. This split is required by the Asset Covered Securities Act.

The Pool Hedge and the Non-Pool Hedge contracts entail the monthly payment of the average customer rate on these mortgages and in return, the receipt of 1 month Euribor plus the current margin being achieved on the mortgage portfolio. The contract is reset each month to reflect the outstanding mortgage balances at that time and to reflect updated customer rates, Euribor and margin levels. Settlements are made between the Bank and AIB to reflect the net amount payable/receivable in each month.

The Pool and Non-Pool Hedge swaps are fair-valued to P&L whereas the mortgage interest rate profile is accrual accounted. The key driver of the volatility in valuation of the Pool and Non-Pool swap structures are changes in fixed term Euro rates and changes in the volume of fixed rate mortgage business. AIB and the Bank amended the Pool and the Non-Pool Hedge structure in December 2013 to include an option for the Bank to terminate the swaps without cost on any reset date. Interest rates were net lower in 2023 while the volume of outstanding fixed rate mortgages rose and the Pool and Non-Pool swaps decreased in value. The swaptions have not fallen in value to the same extent as they represent a right but not an obligation to cancel the swaps and therefore, they can never have a negative valuation. Market volatility, an input into the valuation of the swaption, has increased contributing to the swaption holding a positive value. The hedge structure continues to work effectively from an economic and market risk perspective.

There is some residual interest rate risk in the Bank. This interest rate risk is managed centrally by Group Treasury subject to review and oversight by Group ALCo. Group Treasury proactively manages the market risk on AIB's balance sheet, Market risk is managed against a range of limits approved at Group ALCo, which incorporate forward-looking measures such as VaR limits and stress test limits and financial measures such as embedded value limits. Group Treasury document an annual Risk Strategy and Appetite Statement as part of the annual financial planning cycle which ensures AIB's market risk aligns with AIB's strategic business plan. The total nominal values of the swaps are set out in note 14 to the financial statements. The Bank is not exposed to any other market risks, i.e. foreign exchange rates or equity prices.

Interest rate sensitivity *(audited)*

The table below shows the sensitivity of the Bank's banking book to an immediate and sustained +/- 100 basis point movement in interest rates, in terms of the impact on net interest income on a forward looking basis over a twelve month period, assuming no change in the balance sheet.

Sensitivity of projected net interest income to interest rate movements *(audited)*	**2023** **€m**	2022 €m
+ 100 basis point parallel move in all interest rates	**16**	12
– 100 basis point parallel move in all interest rates	**(16)**	(12)

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.

3.4 Business model risk

Business model risk is the risk of not achieving the agreed strategy or approved business plan as a result of an inadequate implementation plan. This also includes the risk of implementing an unsuitable strategy, or maintaining an obsolete business model, in light of known internal and external factors.

Business model risk was identified as part of the annual Bank's MRA process. The Bank also identifies and assesses this risk as part of its Financial Planning process, which encapsulates strategic, business and financial planning. Every year, the Bank prepares three-year business plans based on macroeconomic and market forecasts across a range of 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 targets. The plan is subject to robust review and challenge through the governance process including an independent review and challenge by the AIB Group Risk function.

The Bank's Financial Plan is aligned to its strategy and risk appetite. The business plan typically describes external market conditions, competitor dynamics, business strategy, financial assumptions underpinning the strategy, actions/ investment required to achieve financial outcomes and any risks/opportunities to the strategy.

The Bank manages business model risk via its RAS, 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 regular periodic monitoring of actual performance versus plan. Where performance against plan is outside agreed tolerances or risk appetite metrics, proposed mitigating actions are presented and evaluated, and tracked thereafter.

Performance against plan is monitored at a Bank level by Executive Management and Board on a quarterly basis. Risk profile against risk appetite measures, some of which reference performance against plan, is monitored monthly by the AIB Group Risk Function, with breaches of risk appetite relating to the Bank reported to the AIB Group Risk Committee. The Bank's risk appetite is reported to the Bank's Executive Management and Board.

3.5 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 – the potential for loss arising from the uncertainty of legal proceedings and potential legal proceedings but excludes strategic and reputational risk.

Operational risk is identified and assessed by the Bank's MRA which is a top down process undertaken to determine the significant risks to which the Bank is exposed to and ensure that these risks are being appropriately managed. Operational risk is also identified by the bottom up Risk and Control Assessment ('RCA'). This process serves to ensure that key operational risks are proactively identified, evaluated, monitored and reported, and appropriate action is taken as necessary.

As part of the Bank's MRA approved by the Board in December 2023, People risk was approved to be a sub risk of Operational risk as it was primarily deemed material through its interconnectedness with Operational risk. Culture risk continues to be a material risk but is moved from Operational risk into Conduct and Culture risk

Operational risk events are identified and captured in AIB Group's 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.

The Bank undertakes an operational risk self-assessment which focuses on activities specific to the Bank, e.g. Bank's funding activities and its compliance with the ACS Act. This process includes periodic assessments of relevant operational risks and the effectiveness of the related controls to address these risks. It complements the risk-based audit approach applied by internal audit on an annual basis in its role as independent assessor of management's control and risk management processes.

The key people, systems and processes are provided by AIB Group and this relationship is governed by an Outsourcing and Agency Agreement. It is underpinned by service level agreements with specific AIB Group teams who provide services to the Bank. AIB Group's Operational Risk Framework applies across all areas of AIB Group including the Bank. It sets out the principles, supporting policies, roles and responsibilities, governance arrangements and processes for operational risk management. A key focus of operational risk management in AIB Group is the oversight of outsourced service activities, in particular activities related to the requirements of the ACS Act, as well as the end-to-end mortgage origination and servicing processes.

Operational risk is measured through the Bank's Board approved risk appetite metrics and key risk indicators are monitored monthly and reported quarterly to the Board.

3.6 Conduct risk and Culture risk

Conduct risk is defined as the risk that inappropriate actions or inactions by the Bank cause poor and unfair customer outcomes or negatively impact on market integrity.

The effective management of Conduct risk requires embedding a strong conduct culture with a customer centric approach to conduct risk management as articulated in the Bank’s values, behaviours and code of conduct.

The Bank’s MRA and RCA forms the basis for identifying and assessing the key elements of conduct risk. The amalgamation of Culture risk within Conduct risk has commenced and further integration through frameworks, policies, procedures and metrics is planned for 2024. Culture forms an integral part of overall conduct risk management and is core to all customer and market facing decisions and interactions. It is imperative that the Bank maintains a strong customer culture in order to deliver appropriate customer outcomes. Culture risk captures the need for the Bank’s core values to be shared by all staff, demonstrated through staff behaviour and that consistent fully understood performance measures are in place.

The RCA process 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. The RCA has identified a number of key conduct risks relating to customer satisfaction, employee behaviour and clients, business and product practice.

The Bank uses various approaches to help mitigate risks relating to Conduct risk including a Conduct Risk Framework and a Conduct Risk Policy, aligned with AIB Group's strategy, which is embedded in the organisation. This Framework and Policy, as well as other supporting policies, are in place to drive the consistent management of this risk.

The Group Chief Compliance Officer and team provides independent oversight and governance of Conduct risk and is a mandatory approver of product / propositions proposals, including training and awareness building.

Conduct risks are monitored across the Bank in line with AIB Group’s 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 and Conduct Risk Policy.

The Regulatory and Conduct Risk Committee ('RCR') is the forum that provides risk oversight of regulatory and conduct risks. The RCR was established by, and is accountable to, the AIB Group Risk Committee to oversee regulatory and conduct risks across AIB Group. This includes monitoring and reviewing the Bank’s regulatory and conduct risk profile, compliance with risk appetite and reviewing risk policies.

3.7 Regulatory compliance risk

Regulatory compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation the Bank 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 Bank’s regulated banking and financial service activities i.e., those activities which the Bank is licenced to conduct business.

The Bank’s MRA and AIB Group’s RCA forms the basis for identifying the key elements of regulatory compliance risk. AIB Group’s Regulatory Compliance Risk Management Framework which applies to the Bank, sets out the principles, roles and responsibilities, and governance arrangements and is supported by a number of key policies.

The AIB Group Regulatory Compliance Risk Management Framework and the Regulatory Compliance risk management lifecycle commences with upstream regulation risk management. The Regulatory Change Team ('RCT') which resides within AIB Group’s Regulatory Compliance Team, provides oversight and support in respect of regulatory change risk management for all entities within AIB Group, including the Bank. 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 the AIB Group Programme Board (‘GPB’). It involves an up-front partnership between the RCT 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 Bank, detailed risk assessments are completed based on the premise of identifying the Regulatory Compliance risks which pose the most significant threat to the Bank. 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.

3.7 Regulatory compliance risk (continued)

The Regulatory and Conduct Risk Committee ('RCR') is the forum that provides risk oversight of regulatory and conduct risks. AIB Group Regulatory Compliance establish written guidance to staff on the appropriate implementation of relevant laws, rules and standards through relevant regulatory compliance policies and supports the business units in understanding and implementing their regulatory compliance obligations. Regulatory Compliance assist the business in maintaining a positive and transparent relationship with the Regulators in respect of regulatory compliance and conduct matters. The Bank's Risk Appetite is also reported to the Board quarterly.

3.8 Capital adequacy risk *(audited)*

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

Identification and assessment *(audited)*

An annual MRA is undertaken to determine the significant risks to which the Bank is exposed and ensure that these risks are being appropriately managed.

Capital adequacy risk for the Bank is evaluated through the annual financial planning and internal capital adequacy assessment process ('ICAAP') where the level of capital required to support growth plans and meet regulatory and internal 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 AIB Group's stress testing methodologies.

Management and measurement

The ICAAP is fully integrated and embedded in the strategic, financial and risk management processes of AIB Group. AIB Group's Business Model and Capital Adequacy ('BMCA') Framework sets out the key processes, governance arrangements and roles and responsibilities which support the ICAAP. The BMCA Framework was updated in 2023 to reflect the work of the Climate Stress Testing project regarding Climate Stress Testing models, roles and responsibilities and governance requirements relating to climate stress testing across AIB Group. The climate stress testing approach and associated models consider the impact of physical and transition risks across a number of scenarios on AIB Group's exposures. The initial scope of climate stress testing activities and climate modelling is primarily focused on the credit risk implications for the Bank's loan portfolio via both transition and physical risk. The Bank exposures are included in the scope of AIB Group Climate Stress Testing models.

Monitoring, escalating and reporting *(audited)*

The impact of changing regulatory requirements, changes in the risk profile of the Bank'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 Financial Plan and Strategy.

The Bank's Board reviews and approves the Bank Financial Plan and the supporting stress tests on an annual basis, confirming it is satisfied with the capital adequacy of the Bank. Quarterly reporting of the risk profile including performance against risk appetite is also presented to the Bank's Board.

3.9 Model risk

Model risk is defined as the loss the Bank 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.

Model risk is identified and assessed as part of the Bank's top down MRA and also by the bottom-up process of the RCA which includes a requirement to perform a self-assessment of the risks.

AIB Group mitigates model risk by having an AIB Group Model Risk Management Framework and supporting policies in place to drive the consistent management of this risk. These set 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. Models are built, validated and monitored by suitably qualified analytical personnel, supported by relevant business and finance functions. Models are built using the best available data, both internal and external, 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. 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.

The Model Risk Committee, which is a subcommittee of AIB Group Risk Committee, reviews and approves the use, or recommends for approval to the appropriate higher approval authority, the Bank's more material models. It is also responsible for the oversight of the performance and maintenance of the models.

3.9 Model risk (continued)

The Board of the Bank has ultimate accountability for ensuring that the models used by the Bank are fit for purpose and meet all jurisdictional regulatory and accounting standards. Operating to the principles outlined in the Model Risk Framework supports the Bank's strategic objectives and provides comfort to the Board on the integrity and completeness of the model risk governance.

3.10 Climate and Environmental risk

Climate and Environmental (C&E) risk is identified and assessed as part of the Bank's top-down MRA and also by the bottom-up process of the RCA which includes a requirement to perform a self-assessment of the risks.

The Bank's annual MRA identified C&E risk as a new principal risk for the Bank. This was approved by the Board in December 2023 and work continues to integrate and embed this risk into the Bank's key risk activities.

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

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

Climate and Environmental risk (C&E risk) sub risks are: Physical risk, Transition risk and Liability risk.

Due to the pervasive nature of C&E risk it impacts on other principal risks and the C&E risk management aspects for these principal risks are incorporated within their relevant risk frameworks and policies.

The impact of C&E risk is incorporated in AIB Group's stress testing framework by conducting a comprehensive scenario analysis to evaluate the potential impact of various climate-related events on AIB Group's portfolios, operations and overall financial position. Scenario testing enables AIB Group to assess the interconnectedness of risks, considering not only direct physical risks but transition risks arising from shifts in market dynamics, investor sentiment and regulatory landscapes. The Bank has identified that flooding is the most material physical risk to the Bank. The Bank's exposures are included in initial scope of climate stress testing activities and climate modelling is primarily focused on the credit risk implications for the Bank's loan portfolio via both transition and physical risk.

Statement of Directors' responsibilities

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

The Directors are responsible for preparing the Directors' report and the annual financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the Bank's financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2014.

In preparing these financial statements, the Directors are required to:
- Select suitable accounting policies for the Bank's financial statements 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 Bank 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 Bank 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 Bank 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 Corporate governance report and disclosures relating to the Directors' remuneration that comply with that law.

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

For and on behalf of the Board,

Eamonn Quinn
Chair

Conor McGrath
Managing Director

Gerry Gaffney
Executive Director

4 March 2024

Independent auditors' report to the members of AIB Mortgage Bank Unlimited Company

Report on the audit of the financial statements

Opinion

In our opinion, AIB Mortgage Bank Unlimited Company's (the "Bank") financial statements:

- give a true and fair view of the Bank's assets, liabilities and financial position as at 31 December 2023 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

We have audited the financial statements, included within the Annual Financial Report, which comprise:

- the Statement of financial position as at 31 December 2023;
- the Income statement and Statement of comprehensive income for the year then ended;
- the Statement of cash flows for the year then ended;
- the Statement of changes in shareholders' equity for the year then ended; and
- the notes to the financial statements, which include a description of the accounting policies.

Certain required disclosures have been presented elsewhere in the Annual Financial Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ('ISAs (Ireland)') and applicable law.

Our responsibilities under ISAs (Ireland) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

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

We have provided no non-audit services to the Bank in the period from 1 January 2023 to 31 December 2023.

Our audit approach

Overview

Materiality	Overall materiality • €13.5 million • Based on c.1% of net assets. Performance materiality • €10.1 million
Audit scope	• We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the activities of the Bank. We performed a full scope audit of the Bank’s financial statements, based on materiality levels.
Key audit matters	• Expected credit loss (completeness and valuation of the post model adjustments) • IT (Privileged User Access)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors’ professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Expected credit loss (completeness and valuation of the post model adjustments) Refer to Note 1.13 “Impairment of financial assets” within Note 1 “Accounting policies”, “Impairment of financial assets” within Note 2 “Critical accounting judgements and estimates”, Note 12 “Net credit impairment (charge)/ writeback”, Note 16 “Loans and advances to customers” and Section 3.1 of the “Risk management report - Credit risk”. At 31 December 2023, the Bank reported total gross loans to customers classified at amortised cost of €18.2bn and €115m of expected credit loss (ECL). The measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes. Complex models and significant judgements are used to estimate the probability of default (PD), loss given default (LGD) and exposure at default (EAD) as well as in applying the staging criteria under IFRS 9. The calculation of ECL requires a high degree of judgement to reflect recent developments in credit quality, arrears experience and/or emerging macroeconomic risks. The area where we identified greater levels of management judgement and therefore increased levels of audit focus in the Bank's compliance with IFRS 9 was the completeness and valuation of post model adjustments (PMAs). **Completeness and valuation of post model adjustments (PMAs)** The judgement surrounding the completeness and valuation of PMA’s represents a significant estimation risk. The modelling methodologies used to estimate ECL are developed using historical experience. Adjustments are made to model outcomes to address known model and data limitations, and emerging or non-modelled risks. In addition, modelling methodologies do not incorporate all factors that are relevant to estimating ECL. The current economic environment continues to be uncertain and differs from recent experience, which is characterised by elevated inflation, increased cost of living and increasing costs of financing, which affects the debt servicing capability for borrowers. As a result, the judgements around if and when the Bank recognises adjustments to model outcomes to account for potential model weaknesses in coping with the current economic environment and outlook are highly judgemental and inherently uncertain.	**Controls** • In conjunction with our credit modelling specialists, we performed end-to-end process walkthroughs to understand and identify the key systems, applications and key controls used in the ECL processes. • We tested the design and operating effectiveness of key controls across the processes relevant to management’s ECL calculation, including those relating to the key judgements and estimates involving our credit modelling specialists where appropriate. We also tested the design and operating effectiveness of key controls over the governance of the estimation of ECL. We attended key executive finance and risk committee meetings of AIB Group where the inputs, assumptions and adjustments to the ECL were discussed and approved and observed management’s review and challenge in these governance forums including the assessment of model limitations and any resulting judgemental post model adjustments. **Conceptual Soundness** • We involved credit modelling specialists to assist us in testing the ECL models by testing the assumptions, inputs and implementation of model formulae. This included a combination of assessing the appropriateness of model design, challenger/ sensitivity analyses, recalculating the Probability of Default and Loss Given Default, and testing model implementation. • In conjunction with our credit modelling specialists, we assessed model governance including model validation and monitoring. We reviewed the AIB Group Model Validation Team’s validation reporting on the new mortgage models and their testing and analysis performed on the new models. **Post Model Adjustments** • In conjunction with our credit modelling specialists, we evaluated the conceptual soundness of the PMAs by critically assessing management’s rationale and methodology, including the limitation and/or risk that the PMA is seeking to address. • We inspected the PMA calculation methodology and tested, on a sample basis, the completeness and accuracy of key data inputs into the PMA calculation. • We challenged the overall completeness and reasonableness of post model adjustments by comparing the PMAs recognised by management to the key model limitations and/or data limitations that we considered to exist in the mortgage portfolio.

Key audit matter	How our audit addressed the key audit matter
Other assumptions Management makes other assumptions which are less judgemental or for which variations have a less significant impact on ECL. These assumptions include: • Conceptual soundness of the modelling methodologies; • Quantitative and qualitative criteria used to assess significant increases in credit risk which drives the allocation of assets to Stage 1, 2, or 3 using criteria in accordance with the accounting standards; • Accounting interpretations, modelling assumptions and data used to build and run the ECL models; and • Inputs and assumptions used to reflect the impact of multiple economic scenarios, including any changes to the forward looking scenarios.	**Quantitative and Qualitative criteria in determining specific increases in credit risk** • We challenged the appropriateness and application of the quantitative and qualitative criteria used to assess significant increases in credit risk (SICR) which determine the allocation of an asset to Stage 1, 2 or 3 in accordance with IFRS 9. • For a selection of performing loans, we critically assessed, by reference to the underlying documentation and through inquiries with management, whether the trigger for credit impaired classification had occurred. **Economic Scenarios** • In conjunction with our credit modelling specialists, we considered the base case and alternative economic scenarios. We challenged and assessed the reasonableness of the significant assumptions underpinning management's economic scenarios which we determined to be unemployment and residential property prices by comparing to independent and observable economic forecasts, leveraging a number of external data points. We assessed whether forecasted macroeconomic variables were reasonable and supportable. • With the support of our credit modelling specialists, we evaluated the overall impact of the macroeconomic factors to the ECL. This assessment considered the sensitivity of ECL to variations in the probability weighting of the economic forecasts. • We challenged the reasonableness of management's forward-looking information (FLI) upside / downside scenario weightings, having regard to relevant available information. Specifically, we challenged the appropriateness of management's change in the severe downside scenario weighting in the current year. **Overall standback** • We performed an overall assessment of ECL provision levels by IFRS 9 stage to determine if they were reasonable by considering the overall credit quality of the Bank's portfolios, risk profile, credit risk management practices and the macroeconomic environment by considering trends in the economy and sectors to which the Bank is exposed. We performed peer benchmarking where available to assess overall staging and provision coverage levels. **Disclosures** • We assessed the adequacy and appropriateness of disclosures for compliance with the accounting standards and the process and controls management had in place to prepare and approve the disclosures.

Key audit matter	How our audit addressed the key audit matter
	Conclusion On the basis of the work performed we have concluded the stock of Expected Credit Loss reserves at year end is within the range of acceptable outcomes.
IT (Privileged User Access) The IT environment is complex and pervasive to the operations of the Bank due to the multiplicity of systems and the large volume of transactions processed and its reliance on automated and IT dependent manual controls. Appropriate IT controls are required to ensure that applications process data as expected and that changes are made in a controlled manner. Our audit approach includes reliance on automated and IT dependent manual controls and therefore on the effectiveness of controls over IT systems impacting financial reporting. Privileged user access management controls are an integral part of the IT environment to ensure both system access and changes made to systems are authorised and appropriate. An integral part of our audit testing is therefore on the effectiveness of privileged user access management controls. In the context of our audit scope, we consider privileged user access management controls at the application layer to be critical to ensuring that only appropriately authorised changes are made to IT systems deemed relevant to our audit. Moreover, appropriate privileged user access management controls contribute to mitigating the risk of potential fraud or error. We considered this to be a key audit matter owing to the high level of reliance on IT operations within the Bank as well as the risk that key IT Audit Dependencies such as automated controls and system generated reports are not designed and operating effectively.	Through enquiries with management and inspection of internal governance documents, we obtained an understanding of the Bank's IT environment. In conjunction with our Digital Audit specialists, we: • Tested the design, implementation and where relevant, the operating effectiveness of preventative and detective IT General Controls (ITGC) over privileged user access management (i.e. those relating to privileged user access provisioning, revocation, recertification and authentication). • Inquired of AIB Group Internal Audit (GIA) and inspected IT related GIA reports produced during the period to understand the nature of findings, if any, and consider the impact on our audit. • Where control deficiencies were identified at the design level we considered the compensating controls in place and sought to obtain additional evidence for the in scope IT Dependencies to obtain reasonable assurance that there were no unauthorised changes made to these during the financial year. • Our risk assessment procedures included an assessment of those deficiencies to determine the impact on our audit plan and designed and executed additional procedures where required. **Conclusion** Having completed the additional audit procedures we concluded that we obtained sufficient evidence for the purposes of our audit.

How we tailored the audit scope

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

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Materiality

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

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

Overall materiality	€13.5 million.
How we determined it	circa 1% of net assets.
Rationale for benchmark applied	AIB Mortgage Bank Unlimited Company is a wholly owned banking subsidiary of AIB Group plc which issues mortgage covered securities for the purpose of financing mortgage loans secured on residential properties. Having considered the key users of the financial statements, we believe that net assets provides us with the most appropriate basis for determining materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to €10.1 million.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €0.68 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Obtaining management's going concern assessment.
- Performing a risk assessment to identify factors that could impact the going concern assessment.
- Considering the Banks's Financial Plan approved by the Board in December 2023. In evaluating management's base case forecasts and alternative stress scenarios we considered the Bank's financial position, historic performance, its past record of achieving strategic objectives and management's assessment of the likely impact on financial performance, capital and liquidity, for a period of 12 months from the date on which the financial statements are authorised for issue.
- Assessing the ability of Allied Irish Banks, p.l.c. to provide support if required during the period of assessment.
- Reading relevant correspondence from the Central Bank of Ireland and the ECB Joint Supervisory Team with regards to regulatory capital and liquidity requirements of the Bank.
- Considering the adequacy of 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 Bank's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements are authorised for issue.

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

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

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

Reporting on other information

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

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

With respect to the Directors' report, we also considered whether the disclosures required by the Companies Act 2014 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland) and the Companies Act 2014 require us to also report certain opinions and matters as described below.

- In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with the applicable legal requirements.
- Based on our knowledge and understanding of the Bank and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' report.
- In our opinion, based on the work undertaken in the course of the audit of the financial statements, the description of the main features of the internal control and risk management systems in relation to the financial reporting process included in the Corporate Governance Statement, is consistent with the financial statements and have been prepared in accordance with section 1373(2)(c).
- Based on our knowledge and understanding of the Bank and its environment obtained in the course of the audit of the financial statements, we have not identified material misstatements in the description of the main features of the internal control and risk management systems in relation to the financial reporting process included in the Corporate Governance Statement.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank'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 Bank or to cease operations or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (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.

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

Based on our understanding of the Bank and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of banking laws and regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2014. We evaluated management’s incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the potential for management bias through judgement and assumptions in significant accounting estimates and manual journal entries being recorded in order to affect performance. Audit procedures performed by the engagement team included:

- Discussions with the Audit Committee, management and AIB Group Legal including consideration of known or suspected instances of non-compliance with laws and regulations or fraud;
- Reading the meeting minutes of the Board of Directors and Audit Committee;
- Discussions with AIB Group Internal Audit and consideration of internal audit reports in so far as they related to the financial statements;
- Evaluating whether there was evidence of management bias that represents a risk of material misstatement due to fraud;
- Inspection of relevant regulatory correspondence from the Central Bank of Ireland and the ECB Joint Supervisory Team;
- Challenging assumptions and judgements made by management in their accounting estimates, in particular in relation to the matters set out in our key audit matter on ECL;
- Applying risk-based criteria to journal entries posted in the audit period to determine journal entries for testing purposes; and
- Designing audit procedures to incorporate elements of unpredictability around the nature and extent of audit procedures performed.

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

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

A further description of our responsibilities for the audit of the financial statements is located on the IAASA website at:
https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/
Description_of_auditors_responsibilities_for_audit.pdf

This description forms part of our auditors’ report.

Use of this report

This report, including the opinions, has been prepared for and only for the Bank’s members as a body in accordance with section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2014 opinions on other matters

- 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 Bank were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.

Other exception reporting

Directors' remuneration and transactions

Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made. We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the directors on 12 May 2023 to audit the financial statements for the year ended 31 December 2023 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

Emma Scott
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
5 March 2024

Income statement

for the financial year ended 31 December 2023

	Note	2023 €m	2022 €m
Interest and similar income	3	**764**	444
Interest and similar expense	4	**(688)**	(160)
Net interest income		**76**	284
Fee income	5	**498**	—
Net trading (expense)/income	6	**(406)**	688
Net gain on other financial assets measured at FVTPL	7	**2**	1
Net (loss)/gain on derecognition of financial assets measured at amortised cost	8	**(3)**	5
Other operating income	9	**1**	1
Other income		**92**	695
Total operating income		**168**	979
Operating expenses	10	**(134)**	(955)
Operating profit before credit impairment (charge)/writeback and taxation		**34**	24
Net credit impairment (charge)/writeback	12	**(5)**	3
Operating profit before taxation		**29**	27
Income tax charge	13	**(4)**	(3)
Profit for the year		**25**	24

Statement of comprehensive income

for the financial year ended 31 December 2023.

	2023 €m	2022 €m
Profit for the year	**25**	24
Other comprehensive income for the year, net of tax	**—**	—
Total comprehensive income for the year	**25**	24

Statement of financial position

as at 31 December 2023

	Note	2023 €m	2022 €m
Assets			
Derivative financial instruments	14	**333**	742
Loans and advances to banks	15	**80**	50
Loans and advances to customers	16	**18,038**	17,746
Other assets[1]	17	**3**	4
Current taxation	13	**—**	1
Prepayments and accrued income[1]	18	**31**	23
Total assets		**18,485**	18,566
Liabilities			
Deposits by banks	19	**6,874**	8,578
Debt securities in issue	20	**9,900**	8,274
Accruals and deferred income	21	**27**	22
Provisions for liabilities and commitments	22	**17**	50
Subordinated liabilities	23	**300**	300
Total liabilities		**17,118**	17,224
Shareholders' equity			
Issued share capital presented as equity	24	**436**	436
Capital reserves	25	**580**	580
Revenue reserves		**351**	326
Total shareholders' equity		**1,367**	1,342
Total liabilities and shareholders' equity		**18,485**	18,566

[1]Refer to note 1.3 for further information about the change in presentation for certain line items in the primary statements.

Eamonn Quinn
Chair

Conor McGrath
Managing Director

Gerry Gaffney
Executive Director

Diane Lumsden
Company Secretary

Statement of changes in shareholders' equity

for the financial year ended 31 December 2023

	Share capital	Capital reserves	Revenue reserves	Total shareholders' equity
	€m	€m	€m	€m
At 1 January 2023	**436**	**580**	**326**	**1,342**
Total comprehensive income for the year				
Profit for the year	**—**	**—**	**25**	**25**
At 31 December 2023	**436**	**580**	**351**	**1,367**
At 1 January 2022	436	580	302	1,318
Total comprehensive income for the year				
Profit for the year	—	—	24	24
At 31 December 2022	436	580	326	1,342

Statement of cash flows

for the financial year *ended 31 December 2023*

	Note	2023 €m	2022 €m
Cash flows from operating activities			
Profit before taxation for the year		**29**	27
Adjustments for:			
Net loss/(gain) on derecognition of financial assets measured at amortised cost		**3**	—
Net credit impairment charge	12	**8**	5
Change in provisions for liabilities and commitments	22	**(31)**	(24)
Change in prepayments and accrued income[2]		**(8)**	(2)
Change in accruals and deferred income[2]		**5**	4
Cash flows from operating activities before changes in operating assets and liabilities		**6**	10
Changes in operating assets and liabilities			
Change in derivative financial instruments		**409**	(667)
Change in loans and advances to customers		**(303)**	(815)
Change in other assets[2]		**1**	178
Change in other liabilities		**(2)**	(14)
Net cash flows from operating assets and liabilities		**105**	(1,318)
Net cash flows from operating activities before taxation		**111**	(1,308)
Taxation paid		**(3)**	(5)
Net cash flows from operating activities		**108**	(1,313)
Net cash flows from investing activities		**—**	—
Cash flows from financing activities			
Change in deposits by banks	19	**(1,704)**	2,531
Change in debt securities in issue	20	**1,626**	(1,251)
Net cash flows from financing activities		**(78)**	1,280
Change in cash and cash equivalents		**30**	(33)
Cash and cash equivalents at 1 January		**50**	83
Closing cash and cash equivalents[1]	29	**80**	50

(1) Cash and cash equivalent balances include Cash Substitution Pool Assets with Barclays Bank Ireland PLC of €80m in 2023 (2022: €50m). See note 15. Loans and advances to banks.
(2) Refer to note 1.3 for further information about the change in presentation for certain line items in the primary statements.

Notes to the financial statements

Notes to the financial statements

Accounting policies index

Notes to the financial statements

1. ACCOUNTING POLICIES

The material accounting policies that the Bank applied in the preparation of the financial statements are set out in this section.

1.1. Reporting entity

AIB Mortgage Bank Unlimited Company ('the Bank') is a public unlimited company operating under the Irish Central Bank Act, 1971 (as amended) and as a designated mortgage credit institution under the Asset Covered Securities Acts 2001 and 2007. The Bank's registered office is 10 Molesworth Street, Dublin 2, Ireland. It is registered under the company number 404926.

The Bank is a wholly owned subsidiary of Allied Irish Banks, p.l.c. ('AIB') which is a wholly owned subsidiary of AIB Group plc, and is regulated by the Single Supervisory Mechanism ('SSM'). Its principal purpose is to issue Mortgage Covered Securities for the purpose of financing loans secured on residential property in accordance with the Asset Covered Securities Acts. Such loans may be made directly by the Bank to customers through the AIB branch network in the Republic of Ireland or may be purchased from AIB and other members of AIB or third parties.

1.2. Statement of compliance

The 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 2023. The 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. The accounting policies have been consistently applied by the Bank and are consistent with the previous year, unless otherwise described.

1.3. Basis of preparation

Functional and presentation currency

The financial statements are presented in euro, which is the functional currency of the Bank, 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.

The financial statements comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in shareholders' equity and the statement of cash flows together with the related notes. The financial statements include the information that is described as being an integral part of the audited financial statements contained in Sections 3.1, 3.2, 3.3 and 3.8 of the Risk management report as described further on the bottom of page 12.

Change in presentation for certain items in the primary statements

The Bank has changed the presentation of accrued interest in the statement of financial position from 'other assets' to 'prepayments and accrued income' in 2023 as this is deemed a more appropriate presentation. The comparative of €23m has been restated accordingly. This change in presentation also resulted in a restatement of the comparative for 'change in other assets' by €2m and 'change in prepayments and accrued income' by €2m on the face of the statement of cash flows.

Changes in accruals and deferred income was previously presented in 'changes in operating assets and liabilities' on the face of the statement of cash flows but is now presented within 'cash flows from operating activities before changes in operating assets and liabilities' as it is deemed a more appropriate presentation. The comparative of €4m has been represented accordingly.

Use of judgements and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of certain assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Since management's judgement may involve making estimates concerning the likelihood of future events, the actual results could differ from those estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. The judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year relate to expected credit losses on financial instruments; and provisions for liabilities and commitments. A description of these judgements and estimates is set out in note 2.

1. ACCOUNTING POLICIES (continued)

1.3. Basis of preparation (continued)

Consideration of climate change

In preparing the financial statements, the Directors have considered the impact of climate change on the Bank’s financial reporting judgements and estimates and no material impact has been identified. As a subsidiary in AIB Group, the Bank continues to integrate climate risk into its overall risk management approach and broader sustainability agenda and will participate as appropriate in the Group’s commitment to be Net Zero by 2030.

Going concern

The financial statements for the year ended 31 December 2023 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting the Bank, that it has the ability to continue in business for the period of assessment. The period of assessment used by the Directors is at least 12 months from the date of approval of these annual financial statements.

In making their assessment, the Directors have considered a wide range of information relating to present and future conditions. These included financial plans covering the period 2024 to 2026, liquidity and funding forecasts and capital resources projections, all of which were prepared under base and stress scenarios.

The Bank is dependent on AIB for continued funding and is therefore dependent on the going concern status of the parent. The financial statements of AIB have been prepared on a going concern basis.

There is no intention to liquidate the Bank or cease trading. The Bank's parent, AIB, continues to support the Bank operationally, through an outsourced arrangement. In addition, AIB has provided a letter of financial support to the Bank.

Conclusion

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

Adoption of new accounting standards/amendments to standards

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

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

The impact of these are set out below.

IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*: Disclosure of Accounting Policies

The amendments to IAS 1 *Presentation of Financial Statements* and IFRS *Practice Statement 2 Making Materiality Judgements* provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures which are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. In considering which accounting policies to disclose as material, the Bank considered both quantitative and qualitative factors including considering the range of users of the Bank’s financial statements.

The amendments had the following impact on the Bank’s disclosure of accounting policies:

- The Bank removed the following policy on the basis that the related balance was quantitatively immaterial: non-current assets held for sale.
- The Bank amended the following policies by condensing or removing information from those policies which were qualitatively immaterial: interest income and expense recognition, financial assets, derivatives and hedge accounting, non-credit risk provisions and shareholders' equity.

The amendments had no impact on the measurement, recognition or presentation of any items in the Bank’s financial statements.

1. ACCOUNTING POLICIES (continued)

1.3. Basis of preparation (continued)

Adoption of new accounting standards/amendments to standards (continued)

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

The amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments had no impact on the Bank's financial statements.

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

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

The amendments had no material impact on the Bank's financial statements.

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

The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:
- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

See accounting policy 1.7 and note 13 for the Bank's disclosure related to this amendment.

The Bank has not early adopted any standard or amendment that has been issued but is not yet effective.

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

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

Amortised cost and gross carrying amount

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

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

1. ACCOUNTING POLICIES (continued)

1.4. Interest income and expense recognition (continued)

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 Bank presents previously unrecognised interest income as a reversal of credit impairment/recovery of amounts previously written-off.

Presentation

Interest income and expense presented in the income statement include:
- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest rate basis; and
- Net interest income and expense on qualifying hedge derivatives designated as fair value hedges which are recognised in interest income or interest expense.

1.5. Fee income

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

Fee 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 pricing agreements between AIB and the Bank reflect revised OECD guidelines on transfer pricing, which are the internationally accepted principles in this area, and which take account of the functions, risks and assets involved. For 2023 this resulted in a net receipt by the Bank from AIB, which is reported as fee income (2022: net payment by the Bank to AIB).

1.6. Net trading income

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

1.7. 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.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided, using the balance sheet liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the reporting date and expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred income tax assets are recognised when it is probable that future taxable profits will be available against which the temporary differences will be utilised. The deferred tax asset is reviewed at the end of each reporting period and the carrying amount will reflect the extent that it is probable that sufficient taxable profits will be available to allow all of the asset to be recovered.

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

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

1. ACCOUNTING POLICIES (continued)

1.7. Income tax, including deferred income tax (continued)
Income tax payable on profits, based on the applicable tax law, is recognised as an expense in the period in which the profits arise.

The Company has adopted the amendments to IAS 12 by the IASB (International Tax Reform – Pillar Two Model Rules), issued in May 2023 and endorsed by the European Commission on 8 November 2023. The amendments provide a mandatory temporary exception from the requirement to recognise and disclose deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar Two model rules. Accordingly, the Bank has not recognised any changes to its deferred tax assets or liabilities in respect of Pillar Two (see note 13).

1.8. Financial assets
Recognition and initial measurement
The Bank initially recognises financial assets on the trade date, being the date on which the Bank commits to purchase the assets. Loan assets are recognised when cash is advanced to borrowers. In a situation where the Bank 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 Bank'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 Bank classifies its financial assets into one of the following categories:

\- Amortised cost

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

\- Fair value through other comprehensive income ('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 Bank 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.

1. ACCOUNTING POLICIES (continued)

1.8. Financial assets (continued)

Business model assessment

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

The assessment considers the following:

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

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

Characteristics of the contractual cash flows

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

The SPPI test requires an assessment of the contractual terms and conditions to determine whether a financial asset contains any terms that could modify the timing or amount of contractual cash flows of the asset, to the extent that they could not be described as solely payments of principal and interest. In making this assessment, the Bank 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 Bank'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.

1.9. Financial liabilities

The Bank categorises financial liabilities as at amortised cost or as at fair value through profit or loss.

The Bank 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 Bank 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.

1. ACCOUNTING POLICIES (continued)

1.10. 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 Bank has access at that date. The Bank 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 Bank 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 Bank’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 Bank 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)

1.10. Determination of fair value of financial instruments (continued)

Valuation techniques (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 Bank 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 Bank recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

1.11. Derivatives and hedge accounting

Derivatives, such as interest rate swaps are used for risk management purposes.

Derivatives are measured initially at fair value on the date on which the derivative contract is entered into and subsequently remeasured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and from valuation techniques using discounted cash flow models and option pricing models as appropriate. Derivatives are included in assets when their fair value is positive and in liabilities when their fair value is negative, unless there is the legal ability and intention to settle an asset and liability on a net basis.

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

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

Hedging

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

All derivatives are carried at fair value and the accounting treatment of the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Where derivatives are held for risk management purposes, and where transactions meet the criteria specified in IAS 39, the Bank designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments ('fair value hedge').

When a financial instrument is designated as a hedge, the Bank 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 Bank 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 of the hedged items.

1. ACCOUNTING POLICIES (continued)

1.11. Derivatives and hedge accounting (continued)

Hedging (continued)

The Bank 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, ineffectiveness arises. The amount of ineffectiveness, 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 Bank 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.

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. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement. Derivatives used to manage interest rate risk arising on mortgage covered securities have been designated as fair value hedges.

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.

Derivatives used to manage interest rate risk arising on mortgage loans to customers are not designated in a hedging relationship. Changes in their fair value are recognised immediately in the income statement.

1.12. Derecognition

Financial assets

The Bank 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 Bank 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.

The Bank 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.

In transactions in which the Bank 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 Bank 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 Bank 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)

1.12. Derecognition (continued)

Financial liabilities

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

1.13. Impairment of financial assets

The Bank 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; and
- Loan commitments issued.

ECLs are the weighted average of credit losses. When measuring ECLs, the Bank 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 Bank’s loss given default models ('LGD').

Purchased or originated credit impaired

POCI financial assets are those that are credit-impaired on initial recognition. The Bank 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 Bank 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.

At each reporting date, the Bank 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.

1. ACCOUNTING POLICIES (continued)

1.13. Impairment of financial assets (continued)

Modification

From time to time, the Bank 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 Bank 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, 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 Bank may repossess collateral previously pledged as security in order to achieve an orderly realisation of the loan. The Bank will then offer this repossessed collateral for sale. However, if the Bank 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 Bank 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.

Write-offs and debt forgiveness

The Bank 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 Bank may write off a loan either partially or fully when there is no reasonable expectation of recovery. This is considered a non-contracted write-off. In this case, the borrower remains fully liable for the credit obligation and is not advised of the write-off.

Once a financial asset is written-off either partially or fully, the amount written-off cannot subsequently be recognised on the balance sheet. It is only when cash is received in relation to the amount written-off that income is recognised in the income statement as a 'recovery of bad debt previously written-off'.

Debt forgiveness arises where there is a formal contract agreed with the customer for the write-off of a loan.

1. ACCOUNTING POLICIES (continued)

1.14. Collateral

The Bank 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 Bank 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.

1.15. 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. These are reported within provisions for liabilities and commitments in the statement of financial position.

1.16. Shareholders' equity

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

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 Bank.

Dividends and distributions

Final dividends on ordinary shares are recognised as a liability in the Bank's financial statements in the period in which they are approved by the shareholders of the Bank. Proposed dividends that are declared after the end of the reporting date are not recognised as a liability.

Capital reserves

Capital reserves represent cash contribution from AIB.

Revenue reserves

Revenue reserves include the following:
- Retained earnings of the Bank; and
- Amounts arising from the capital reduction undertaken by the Bank in June 2019.

1.17. Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash on hand 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.

1. ACCOUNTING POLICIES (continued)

1.18. Prospective accounting changes

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

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

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

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

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

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

These amendments are not expected to have a material impact on the Bank.

Other

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

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Significant judgments

The significant judgements made by the Bank in applying its accounting policies are as follows:
- Impairment of financial assets; and
- Provisions for liabilities and commitments.

The application of certain of these judgements also involves estimations which are discussed separately.

Impairment of financial assets

The Bank's accounting policy for impairment of financial assets is set out in accounting policy 1.13 in note 1. Details of the Bank's ECL allowance are set out in note 16.

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 Bank 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; and*
- *Determining the need for and an appropriate methodology for post-model adjustments.*

The significant management judgement and the governance process, relating to ECL, are set out on page 28 in the Risk management section of this report.

Provisions for liabilities and commitments

The Bank's accounting policy for provisions for liabilities and commitments is set out in accounting policy 1.15 in note 1. Details of the Bank's provisions for liabilities and commitments are shown in note 22.

Significant management judgement is required to determine whether the Bank 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 Bank 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 Bank 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.

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:
- Impairment of financial assets.

Impairment of financial assets

The Bank's accounting policy for impairment of financial assets is set out in accounting policy 1.13 in note 1. Details of the Bank's ECL allowance are set out in note 16.

The key estimates and assumptions that the Bank has used in determining the ECL allowance are as follows:

- *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.*

The calculation of the ECL allowance is complex and therefore an entity must consider large amounts of information in its 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.

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)
Critical accounting estimates (continued)

Impairment of financial assets (continued)
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 ECL allowance is, in turn, reviewed and approved by AIB Group Credit Committee on a quarterly basis with the final Bank levels being recommended by the Bank's Audit Committee and approved by the Bank's Board. Further detail on the ECL governance process is set out on page 14.

The macroeconomic variables used in models to calculate ECL allowance are based on assumptions, forecasts and estimates against a backdrop of an evolving economic landscape. Accordingly, developments in local and international factors could have a material bearing on the ECL allowance within the next financial year. The Bank's sensitivity to a range of macroeconomic factors under (i) base forecast; (ii) upside; and (iii) downside scenarios is set out on page 27 of the Risk management section of this report.

The Bank has developed a standard approach for the measurement of ECL for the majority of the Bank'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 pages 20 and 21 of the Risk management section. When considering changes in these assumptions collectively, there is a significant risk of a material adjustment to the Bank's ECL allowance within the next financial year.

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 28.

The sensitivity of the carrying amounts of the ECL to changes in the assumptions for measuring ECL; and the estimation of post model adjustments where required have not been provided given their diverse nature, their interrelationship and the number of estimates and assumptions involved.

3. INTEREST AND SIMILAR INCOME

	2023 €m	2022 €m
Interest on loans and advances to customers at amortised cost	555	411
Interest earned from AIB	209	33
Interest income calculated using the effective interest method	764	444

Interest earned from AIB is €209m (2022: €33m) and relates to interest earned on loan portfolio swaps.

4. INTEREST AND SIMILAR EXPENSE

	2023 €m	2022 €m
Interest on debt securities in issue	2	11
Interest payable to AIB	686	149
Interest expense calculated using the effective interest method	688	160

The interest payable to AIB is interest payable on funding provided by AIB of €686m (2022: €129m), and interest payable on loan portfolio swaps of nil (2022: €20m).

5. FEE INCOME

	2023 €m	2022 €m
Fees receivable from Group undertakings	498	—
	498	—

The pricing agreements between AIB and the Bank reflect revised OECD guidelines on transfer pricing, which are the internationally accepted principles in this area, and which take account of the functions, risks and assets involved. For 2023 this required a payment by AIB to the Bank of €498m. For 2022 this required a payment by the Bank to AIB (see note 10: Operating expenses).

6. NET TRADING (EXPENSE)/INCOME

	2023 €m	2022 €m
Interest rate contracts	(406)	688
	(406)	688

The net trading loss of €406m (2022: gain of €688m) reflects a movement in the mark to market valuation of derivatives used to manage interest rate risk arising on mortgage loans to customers and which are not designated in a hedging relationship under IAS 39. Changes in their fair value are recognised immediately in the income statement. The decrease in mark to market value of derivatives, which provide an economic hedge for interest rate risk on loans and advances to customers, is due to lower long term Euro interest rates at 31 December 2023.

7. NET GAIN ON OTHER FINANCIAL ASSETS MEASURED AT FVTPL

	2023 €m	2022 €m
Loans and advances to customers	2	1
	2	1

8. NET (LOSS)/GAIN ON DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

	2023		2022	
	Carrying value of derecognised financial assets measured at amortised cost €m	Loss from derecognition €m	Carrying value of derecognised financial assets measured at amortised cost €m	Gain from derecognition €m
Loans and advances to customers	—	(3)	62	5
	—	(3)	62	5

There were no loan disposals in 2023. The loss of €3m in 2023 relates to price adjustments on loans disposed of in 2022. Derecognition in 2022 arose from the sale of portfolios of non-performing loans. The loans were disposed of for credit management purposes after credit deterioration had occurred.

9. OTHER OPERATING INCOME

	2023 €m	2022 €m
Miscellaneous operating income	1	1
	1	1

Other operating income of €1m in 2023 (2022: €1m) relates to additional income recognised when out of course lodgements are received on loans that required a fair value adjustment on recognition.

10. OPERATING EXPENSES

	2023 €m	2022 €m
Amounts payable to AIB	158	961
Other administrative expenses/(writebacks)	(24)	(6)
	134	955

Amounts payable to AIB are determined by the pricing agreement, based on the Transactional Net Margin Method, which reflects the OECD guidelines on transfer pricing, which are the internationally accepted principles in this area, and which take account of the functions, risks and assets involved, plus the cost of services provided by AIB under the Outsourcing and Agency Agreement. For 2023 this required a payment of €158m in respect of allocated costs and for 2023 the transfer pricing agreement generated an income for the Bank (see Note 5: Fee income). In 2022 there was a payment to AIB of €961m (outsourcing costs €144m and transfer pricing payment €817m).

Other administrative expenses includes professional fees of €1m (2022: €1m), statutory payments (regulatory charges/ levies) of €5m (2022: €10m), offset by a net writeback on provisions for liabilities and commitments of €31m (2022: €17m writeback). See note 22 Provisions for liabilities and commitments for further information.

10. OPERATING EXPENSES (continued)

For the financial year ended 31 December 2023 the monthly average number of employees was nil (2022: nil). As at 31 December 2023, the Bank had no employees (2022: nil).

A small number of AIB employees maintain a parallel employment relationship with the Bank, in order to facilitate delivery of outsourced service activities under the Outsourcing and Agency Agreement with AIB. These parallel employments are unremunerated. These employees of AIB in the Republic of Ireland have a primary employment relationship with AIB, which maintains day-to-day control over them and remains responsible for the payment of their remuneration as well as accounting for tax and other payroll deductions.

Personnel expenses

Personnel expenses capitalised during the financial year were nil (2022: nil). Personnel expenses borne by AIB are allocated to the Bank under an Outsourcing and Agency Agreement.

11. 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 Bank’s Auditor for services relating to the audit of the Bank in the categories set out below. PricewaterhouseCoopers, Chartered Accountants and Statutory auditors, were appointed as the Bank's independent auditor following shareholder approval in May 2023. Deloitte Ireland LLP was the Bank's auditor for 2022.

	2023	2022
	€'000	€'000
Auditor remuneration (excluding VAT):		
Audit of financial statements	**145**	138
Other assurance services - borne by the Parent company	**—**	28
Tax advisory services	**—**	—
Other non-audit services	**—**	—
	145	166

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

Other assurance services include remuneration for additional assurance issued by the firm outside of the audit of the statutory financial statements of the Bank. This remuneration includes assignments where the Auditor provides assurance to third parties.

The Bank policy on the provision of non-audit services includes the prohibition on the provision of certain services and the pre-approval by the AIB Group Board Audit Committee of the engagement of the Auditor for non-audit work.

The Board and Audit Committee have reviewed the level of non-audit services remuneration and is satisfied that it has not affected the independence of the Auditor.

12. NET CREDIT IMPAIRMENT (CHARGE)/WRITEBACK
The following table analyses the income statement net credit impairment (charge)/writeback on financial instruments for the years ended 31 December 2023 and 2022:

	2023		2022	
	Measured at amortised cost	Total	Measured at amortised cost	Total
Credit impairment charge on financial instruments	€m	€m	€m	€m
Net measurement of loss allowance:				
Loans and advances to customers	(8)	(8)	(5)	(5)
Credit impairment charge	(8)	(8)	(5)	(5)
Recoveries of amounts previously written-off	3	3	8	8
Net credit impairment (charge)/writeback	(5)	(5)	3	3

13. TAXATION

	2023	2022
	€m	€m
Current tax		
Current tax on income for the financial year	(4)	(2)
Current tax charge for the year	(4)	(2)
Deferred tax		
Origination and reversal of temporary timing differences	—	(1)
Deferred tax charge for the year	—	(1)
Total tax charge for the year	(4)	(3)
Effective income tax rate	12.5 %	12.5 %

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:

	2023		2022	
	€m	%	€m	%
Profit before tax	29		27	
Tax charge at standard corporation tax rate in Ireland of 12.5%	(4)	12.5	(3)	12.5
Tax charge	(4)	12.5	(3)	12.5

Pillar Two
The member countries of the OECD/G20 Inclusive Framework have agreed the Pillar Two model rules for a global 15% minimum effective tax rate. Ireland enacted Pillar Two legislation on 18 December 2023, effective from 1 January 2024. AIB Group, together with its subsidiaries (the 'Group') is within the scope of the Pillar Two legislation. However, as it was not effective at the reporting date, the Group has no related current tax exposure for 2023.

Under the Pillar Two legislation, if the Group’s Pillar Two effective tax rate in a jurisdiction is less than the 15% minimum rate, the Group is liable to pay a top-up tax for the difference.

The Group is monitoring its exposure to the Pillar Two legislation for 2024. An initial assessment indicates that if the Pillar Two legislation had applied for 2023, the Group’s Pillar Two effective rate in Ireland would have been above 15%. Accordingly, it is expected that if Pillar Two legislation had been in effect in 2023, there would have been no exposure to the Bank for additional taxes under Pillar Two.

14. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses two different types of interest rate swaps to hedge interest rate risk. The first type is used to hedge interest rate risk on mortgage loan accounts both within the Cover Assets Pool and outside the Cover Assets Pool, effectively converting interest receivable from a fixed rate basis to a floating rate basis. Although these swaps are considered to be an effective hedge in economic terms, the Bank has not applied Macro Fair Value hedging relationship under IAS 39 with the mortgage loan accounts and consequently, they are classified as "held for trading". AIB and the Bank amended the Pool and the Non-Pool Hedge structure in December 2013 to include an option for the Bank to terminate the swaps without cost on any reset date.

The Bank also uses interest rate swaps to hedge the mortgage covered securities, converting interest payable from a fixed rate basis to a floating rate basis. Effective fair value hedging relationships have been established between these swaps and the underlying covered bonds and consequently the change in fair value of the swaps is largely offset by fair value movements in the covered bonds themselves.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. AIB is the counterparty to all derivative contracts noted below.

The following table shows the notional principal amount and the fair value of derivative financial instruments analysed by product and purpose at 31 December 2023 and 2022. A description of how the fair values of derivatives are determined is set out in note 28.

	2023			2022		
	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 swaps	**18,249**	**330**	**—**	17,954	736	—
Derivatives held for hedging						
Interest rate swaps	**25**	**3**	**—**	1,025	6	—
Total derivative financial instruments	**18,274**	**333**	**—**	18,979	742	—

Nominal values and average interest rates by residual maturity

At 31 December 2023 and 2022, the Bank held the following hedging instruments of interest rate risk in fair value hedges:

						2023
	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						
Hedges of financial liabilities						
Nominal principal amount (€m)	**—**	**—**	**—**	**5**	**20**	**25**
Average interest rate (%)	**—**	**—**	**—**	**5.58**	**5.00**	**5.12**

						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						
Hedges of financial liabilities						
Nominal principal amount (€m)	—	1,000	—	—	25	1,025
Average interest rate (%)	—	0.88	—	—	5.12	0.98

14. 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) the hedged items in fair value hedges of interest rate risk together with the related hedge ineffectiveness at 31 December 2023 and 2022:

							2023
		Carrying amount					
	Nominal	Assets	Liabilities	Line item in statement of financial position 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:							
Debt securities in issue	25	3	—	Derivative financial instruments	3	—	Net trading income

							2023
	Carrying amount of hedged items recognised in the statement of financial position		Accumulated amount of fair value hedge adjustments on the hedged items included in the carrying amount of the hedged item		Line item in statement of financial position 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 statement of financial position 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
Debt securities in issue	—	(27)	—	(2)	Debt securities in issue	(3)	—

							2022
		Carrying amount					
	Nominal	Assets	Liabilities	Line item in statement of financial position 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:							
Debt securities in issue	1,025	6	—	Derivative financial instruments	—	—	Net trading income

14. DERIVATIVE FINANCIAL INSTRUMENTS (continued)
Fair value hedges of interest rate risk (continued)

							2022
	Carrying amount of hedged items recognised in the statement of financial position		Accumulated amount of fair value hedge adjustments on the hedged items included in the carrying amount of the hedged item		Line item in statement of financial position 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 statement of financial position 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
Debt securities in issue	—	(1,024)	1	—	Debt securities in issue	—	—

15. LOANS AND ADVANCES TO BANKS

	2023	2022
	€m	€m
At amortised cost		
Funds placed with banks	**80**	50
ECL allowance	**—**	—
	80	50
Analysed by remaining maturity:		
3 months or less	**80**	50

The funds placed with banks of €80m (2022: €50m) are held by Barclays Bank Ireland PLC and represent the Cash substitution pool assets and is a restricted cash balance. Cash substitution pool assets are an Asset Covered Securities Act 2001 (section 6) concept whereby certain non-mortgage assets can be held as part of the Cover Assets Pool in addition to the mortgage credit assets. Covered Asset Monitor (CAM) consent is required to be obtained before cash can be taken out of the Substitution Bank Account held by Barclays Bank Ireland PLC.

The Barclays Bank Ireland PLC credit rating at 31 December 2023 with Standard & Poor's was A.

16. LOANS AND ADVANCES TO CUSTOMERS

	2023 €m	2022 €m
Analysed by remaining maturity:		
Repayable on demand	**126**	105
3 months or less	**2**	2
1 year or less but over 3 months	**15**	16
5 years or less but over 1 year	**469**	489
Over 5 years	**17,541**	17,245
Gross carrying amount	**18,153**	17,857
Expected credit loss allowance	**(115)**	(111)
Total loans and advances to customers	**18,038**	17,746

For details of credit quality of loans and advances to customers, including forbearance, refer to the sections denoted as 'audited' in the 'Risk management' section 3.1 of this report.

Amounts repayable on demand includes instances where customers have failed to meet specified repayment terms, and are therefore, classified as repayable on demand in accordance with their lending conditions. Loans and advances to customers comprise AIB branch and intermediary originated residential mortgages in the Republic of Ireland. This portfolio is well diversified by borrower and by geographical location within the Republic of Ireland.

ECL allowance movement

The following table shows the movements on the ECL allowance on loans and advances to customers. Further information is disclosed in the Gross loans and ECL movement tables in the 'Risk management' section of this report. See pages 33 to 34.

	2023 €m	2022 €m
At 1 January	**111**	144
Net remeasurement of loss allowance - customers	**8**	5
Changes in loss allowance due to write-offs	**(6)**	(5)
Changes in loss allowance due to disposals	**—**	(33)
Other	**2**	—
At 31 December	**115**	111

17. OTHER ASSETS

	2023 €m	2022 €m
Proceeds due from disposal of loan portfolio	**3**	3
Non-current assets held for sale	**—**	1
	3	4

18. PREPAYMENTS AND ACCRUED INCOME

	2023 €m	2022 €m
Accrued interest[1]	**31**	23
	31	23

[1] Refer to note 1 for further information about the change in presentation for certain line items in the primary statements.

19. DEPOSITS BY BANKS

	2023 €m	2022 €m
Due to Allied Irish Banks, p.l.c.	**6,874**	8,578
	6,874	8,578

The Bank has a borrowing facility with its parent company, AIB, under which the parent company provides the balance of funding after the Bank has availed of other sources of funds. The movement in Deposits by Banks of €1,704m is driven by the redemption of covered bonds with a nominal value of €1,500m and increase in total assets €204m in 2023.

20. DEBT SECURITIES IN ISSUE

	2023 €m	2022 €m
Mortgage covered securities in issue to external investors and internal issuances at nominal value:		
External investors	**25**	1,025
Allied Irish Banks, p.l.c.	**9,750**	7,250
	9,775	8,275
Mortgage covered securities in issue to external investors and internal issuances at carrying value:		
External investors	**27**	1,024
Allied Irish Banks, p.l.c.	**9,873**	7,250
	9,900	8,274
Analysed by remaining maturity:		
3 months or less	**751**	998
1 year or less but over 3 months	**754**	500
5 years or less but over 1 year	**6,373**	5,250
Greater than 5 years	**2,022**	1,526
Carrying value of debt securities in issue	**9,900**	8,274

Analysis of movements in debt securities in issue

	2023 €m	2022 €m
At 1 January	**8,274**	9,525
Issued during the year	**3,000**	—
Repurchased	**(500)**	(500)
Matured	**(1,000)**	(750)
Other	**126**	(1)
At 31 December	**9,900**	8,274

The Bank is an issuer of mortgage covered securities under the Asset Covered Securities Act, 2001 as amended by the Asset Covered Securities Amendment Act, 2007 (the "Act"). The Act requires that mortgage covered securities are secured by assets that are included in a Cover Assets Pool maintained by the issuer and that a register of mortgage covered securities business is kept.

At 31 December 2023, the Cover Assets Pool amounted to €15,103m (2022: €15,252m), comprising of €15,023m (2022: €15,202m) of mortgage credit assets (mortgage loan accounts) and €80m (2022: €50m) of substitution assets (cash on deposit with suitably rated credit institutions). Section 40(2) of the Act requires that the following information be disclosed in respect of mortgage credit assets that are recorded in the register of mortgage covered securities business.

20. DEBT SECURITIES IN ISSUE (continued)

(a) Mortgaged properties and principal loan balances outstanding in the cover assets pool

Total loan balances

		2023		2022	
		Total loan balances[(1)(2)]	Number of mortgaged properties	Total loan balances[(1)(2)]	Number of mortgaged properties
From	To	€m		€m	
€0	€100,000	2,142	40,502	2,254	42,859
€100,000	€200,000	5,658	38,812	5,897	40,504
€200,000	€500,000	6,354	22,953	6,201	22,622
Over €500,000		869	1,276	850	1,219
		15,023	103,543	15,202	107,204

(1) The total loan balances are categorised by the total loan balance outstanding per mortgaged property, including principal and interest charged to the loan accounts, but excluding interest accrued but not charged to the loan accounts.
(2) There could be one or more loan accounts per mortgaged property. The Cover Assets Pool contains 114,216 loan accounts (2022: 118,612) secured on 103,543 properties (2022: 107,204).

(b) Geographical location of mortgaged properties in the cover assets pool

Geographical Area	2023		2022	
	Number of Mortgaged Properties		Number of Mortgaged Properties	
Dublin	26,551	26 %	27,861	26%
Outside Dublin	76,992	74 %	79,343	74%
	103,543	100 %	107,204	100%

(c) Mortgage loan accounts in default in the cover assets pool
As at 31 December 2023, there were no mortgage loan accounts (2022: nil) in default in the Cover Assets Pool (in default being defined as impaired mortgage loan accounts).

(d) Mortgage loan accounts in default in the cover assets pool with arrears greater than €1,000
During the financial year ended 31 December 2023, there were no mortgage loan accounts (2022: nil) in the Cover Assets Pool that had been in default with arrears greater than €1,000.

(e) Replacement of non-performing mortgage loan accounts from the cover assets pool
During the financial year ended 31 December 2023, non-performing mortgage loan accounts which were removed from the Cover Assets Pool were not replaced with other assets as the Cover Assets Pool continued to meet all regulatory requirements.

(f) Amount of interest in arrears on mortgage loan accounts in the cover assets pool not written off
The total amount in arrears (including principal and interest) in respect of 1,113 accounts (2022: 953) as at 31 December 2023 was €1,315,579 (2022: €869,531), of which €490,267 (2022: €302,389) represented non-payment of interest. None of the accounts in question were written off as at 31 December 2023.

(g) Total principal and interest payments on mortgage loan accounts
The total amount of repayments (principal and interest) made by customers on mortgage loan accounts in the Cover Assets Pool during the year ended 31 December 2023 was €2,201m (2022: €2,200m), of which €1,726m (2022: €1,832m) represented repayment of principal and €475m (2022: €368m) represented payment of interest. The repayments of principal include the repayment of mortgage loan accounts by customers closing their existing accounts when opening a new account with the Bank.

(h) Number and amount of mortgage loans in the cover assets pool secured on commercial property
As at 31 December 2023 there were no loan accounts (2022: nil) in the Cover Assets Pool that were secured on commercial properties.

21. ACCRUALS AND DEFERRED INCOME

	2023	2022
	€m	€m
Accrued interest	25	18
Other accrued expense	2	4
	27	22

22. PROVISIONS FOR LIABILITIES AND COMMITMENTS

	2023	2022
	€m	€m
At 1 January 2023	50	74
Charged to income statement	2	—
Released to income statement	(33)	(17)
Provisions utilised	(2)	(7)
At 31 December	17	50

The total provisions for liabilities and commitments expected to be settled within one year amount to €17m (2022: €50m).

Provisions for customer redress and other costs

The provision at 31 December 2023 for customer redress and compensation and other related costs amounted to €17m, of which €15m is for the 2020 FSPO Decision (further information below) and €2m is for other customer redress (2022: €48m and €2m respectively).

FSPO provision:

In 2020, following a Financial Services and Pensions Ombudsman ('FSPO') decision in relation to a complaint by a customer from the '06-09 Terms & Conditions 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, AIB Group decided to accept the decision in full. Furthermore, the Bank decided to apply the remedy to all other customers within this cohort, and payments to customers on that basis have effectively concluded. The Bank has continued to engage with stakeholders regarding some related items.

Following utilisations of €1m, the Bank's best estimate of the provision at 31 December 2023 for customer redress and compensation and other related costs amounted to €15m (2022: €48m). The final cost is subject to some uncertainty (with a range of possible outcomes) and the final outcome may be higher or lower depending on the finalisation of all associated matters.

23. SUBORDINATED LIABILITIES

	Notes	2023 €m	2022 €m
Dated capital note	(a)	**100**	100
Perpetual capital note	(b)	**200**	200
		300	300

(a) €100,000,000 Dated Subordinated Capital Note – the loan to which this note relates was received from the parent company, AIB, on 13 February 2006. The Note has a fixed maturity date of 12 February 2031. Early repayment may occur at the option of the Bank with the prior consent of the Central Bank of Ireland on any interest payment date falling any time after five years and one day from the date of issuing the Note.

Interest on the outstanding principal amount is calculated on a year of 360 days at a rate of 53 basis points over Euribor payable monthly in arrears and is reflected in note 4 'Interest and similar expense'.

(b) €200,000,000 Subordinated Perpetual Capital Note – the loan to which this note relates was received from AIB on 13 February 2006. The Note is undated and has no final maturity date but may be redeemed at the option of the Bank with the prior consent of the Central Bank of Ireland at any time after the fifth anniversary of its issue.

Interest on the outstanding principal amount is calculated on a year of 360 days at a rate of 100 basis points over Euribor payable monthly in arrears and is reflected in note 4 'Interest and similar expense'.

The two capital notes are unsecured and all rights and claims of AIB shall be subordinated to the claims of all creditors who are depositors or other unsubordinated creditors of the Bank and creditors of the Bank whose claims are subordinated to the claims of depositors and other unsubordinated creditors of the Bank but excluding pari passu Subordinated Creditors and those creditors of the Bank whose claims rank or are expressed to rank junior to the claims of AIB.

24. ISSUED SHARE CAPITAL PRESENTED AS EQUITY

	2023		2022	
	Number of shares m	€m	Number of shares m	€m
Authorised:				
Ordinary share capital				
Ordinary shares of €0.25 each	**3,000**	**750**	3,000	750
Issued and fully paid up:				
Ordinary share capital				
Ordinary shares of €0.25 each	**1,745**	**436**	1,745	436

There were no movements in issued share capital during 2023 and 2022.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All shares rank equally with regard to the Bank's residual assets.

25. CAPITAL RESERVES

The following table shows the movement on capital reserves:

	2023 €m	2022 €m
At 1 January	580	580
At 31 December	**580**	580

Capital reserves represent cash contribution from AIB.

26. CONTINGENT LIABILITIES AND COMMITMENTS
(i) Off balance sheet commitments

	2023 €m	2022 €m
Loan commitments		
Less than 1 year	688	669
1 year and over	35	38
	723	707

At 31 December 2023, the Bank had €723m (2022: €707m) of approved mortgage loan applications that had not been drawn down as at the year end.

Loan commitments are classified and measured in accordance with IFRS 9. The Bank's accounting policy for the recognition of ECL allowances on loan commitments is set out in accounting policy 1.13 Impairment of financial assets.

The loan commitments were assessed for an ECL at 31 December 2023 and it was determined that the ECL was immaterial (2022: immaterial).

(ii) Legal proceedings
The Bank, 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 Bank is aware, (other than as set out in the following paragraphs), pending or threatened by or against the Bank 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 Bank.

Specifically, litigation has been served on the Bank by customers that are pursuing claims in relation to tracker mortgages. Customers have also lodged complaints to the FSPO in relation to tracker mortgages issues which are outlined in 'Provisions for liabilities and commitments' (note 22).

Further claims may also be served in the future in relation to tracker mortgages. The Bank may also receive further decisions 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 are 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 Bank.

27. 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 1.12 and financial liabilities in note 1.13, 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 at 31 December 2023 and 2022 the carrying amounts of the financial assets and financial liabilities by measurement category and by statement of financial position heading.

			2023
	At fair value through profit and loss	At amortised cost	Total
	Mandatorily		
	€m	€m	€m
Financial assets			
Derivative financial instruments	333	—	333
Loans and advances to banks	—	80	80
Loans and advances to customers	—	18,038	18,038
Other financial assets	—	34	34
	333	18,152	18,485
Financial liabilities			
Deposits by banks	—	6,874	6,874
Debt securities in issue	—	9,900	9,900
Subordinated liabilities	—	300	300
Other financial liabilities	—	27	27
	—	17,101	17,101

			2022
	At fair value through profit and loss	At amortised cost	Total
	Mandatorily		
	€m	€m	€m
Financial assets			
Derivative financial instruments	742	—	742
Loans and advances to banks	—	50	50
Loans and advances to customers	—	17,746	17,746
Other financial assets	—	26	26
	742	17,822	18,564
Financial liabilities			
Deposits by banks	—	8,578	8,578
Debt securities in issue	—	8,274	8,274
Subordinated liabilities	—	300	300
Other financial liabilities	—	22	22
	—	17,174	17,174

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

The term 'financial instruments' includes both financial assets and financial liabilities. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The Bank's accounting policy for the determination of fair value of financial instruments is set out in accounting policy 1.10.

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 Bank has estimated the fair value of its loans to customers taking into account market risk and the changes in credit quality of its borrowers.

Fair values are based on observable market prices, where available, and on valuation models or techniques where the lack of market liquidity means that observable prices are unavailable. The fair values of financial instruments are measured according to the following fair value hierarchy:

Level 1 – financial assets and liabilities measured using quoted market prices from an active market (unadjusted).
Level 2 – financial assets and liabilities measured using valuation techniques which use quoted market prices from an active market or measured using quoted market prices unadjusted from an inactive market.
Level 3 – financial assets and liabilities measured using valuation techniques which use unobservable inputs.

All valuations are carried out within the Finance function of AIB and valuation methodologies are validated by the Risk function within AIB.

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

The methods used for calculation of fair value in 2023 are as follows:

Financial instruments measured at fair value in the financial statements

Derivative financial instruments

Where derivatives are traded on an exchange, the fair value is based on prices from the exchange. The fair value of over-the-counter derivative financial instruments is estimated based on standard market discounting and valuation methodologies which use reliable observable inputs including yield curves and market rates. These methodologies are implemented by the Finance function and validated by the Risk function within AIB. Where there is uncertainty around the inputs to a derivative's valuation model, the fair value is estimated using inputs which provide the Bank'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 credit and own credit is an input into the valuation of uncollateralised customer derivatives.

Financial instruments not measured at fair value but with fair value information presented separately in the notes to the financial statements

Loans and advances to banks

The fair value of loans and advances to banks is estimated using discounted cash flows and applying applicable market rates as appropriate.

Loans and advances to customers

The Bank provides lending facilities of varying rates and maturities to personal customers.

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

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 rate risk in the portfolio.

Deposits by banks

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 Bank.

28. 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. The carrying amount is considered representative of fair value.

The following table sets out the carrying value of financial instruments across the three levels of the fair value hierarchy at 31 December 2023 and 2022:

					2023
	Carrying amount	Fair value			
		Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
	€m	€m	€m	€m	€m
Financial assets measured at fair value					
Derivative financial instruments					
Interest rate swaps	333	—	333	—	333
	333	—	333	—	333
Financial assets not measured at fair value					
Loans and advances to banks	80	—	—	80	80
Loans and advances to customers	18,038	—	—	17,588	17,588
Other financial assets	34	—	—	34	34
	18,152	—	—	17,702	17,702
Financial liabilities not measured at fair value					
Deposits by banks	6,874	—	—	6,874	6,874
Debt securities in issue	9,900	9,671	—	—	9,671
Subordinated liabilities	300	—	225	—	225
Other financial liabilities	27	—	—	27	27
	17,101	9,671	225	6,901	16,797

Notes to the financial statements

28. 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					
Derivative financial instruments					
Interest rate swaps	742	—	742	—	742
	742	—	742	—	742
Financial assets not measured at fair value					
Loans and advances to banks	50	—	—	50	50
Loans and advances to customers	17,746	—	—	16,936	16,936
Other financial assets	26	—	—	26	26
	17,822	—	—	17,012	17,012
Financial liabilities not measured at fair value					
Deposits by banks	8,578	—	—	8,578	8,578
Debt securities in issue	8,274	8,092	—	—	8,092
Subordinated liabilities	300	—	187	—	187
Other financial liabilities	22	—	—	22	22
	17,174	8,092	187	8,600	16,879

Significant transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy
There were no significant transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy for the years ended 31 December 2023 and 2022.

29. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2023	2022
	€m	€m
Loans and advances to banks (note 15)	80	50
	80	50

Cash and cash equivalents include balances with original maturities of less than 3 months. Restricted cash in the Bank is included in note 15. Loans and advances to banks.

30. RELATED PARTY TRANSACTIONS

(a) Transactions with AIB

The Bank is a subsidiary of AIB. Banking transactions are entered into between the Bank and AIB in the normal course of business. These include loans, deposits and derivatives on an arm's length basis. Interest received from AIB and interest paid to AIB is disclosed in note 3 and note 4 to the financial statements. Most of the Bank's activities are outsourced to AIB under an Outsourcing and Agency Agreement. AIB as Service Agent for the Bank, originates residential mortgage loans through its retail branch network and digital channels in the Republic of Ireland, services the mortgage loans and provides treasury services in connection with financing as well as a range of support services. The Bank's activities are financed through the issuance of mortgage covered securities with the balance of funding being provided by AIB. In addition, the Bank has a pricing agreement with AIB updated in 2023 reflecting the OECD guidelines on transfer pricing, which are the internationally accepted principles in this area, and which take account of the functions, risks and assets involved (see note 10: Operating expenses).

	2023	2022
	€m	€m
Included on the statement of financial position		
Deposits by banks	**(6,874)**	(8,578)
Debt securities in issue	**(9,873)**	(7,250)
Accruals and deferred income	**(24)**	(9)
Subordinated liabilities	**(300)**	(300)
Derivative financial instruments		
Interest rate swaps		
Assets (Fair value)	**333**	742
Included in the income statement		
Interest income	**209**	33
Interest expense	**(686)**	(149)
Fee income	**498**	—
Net trading (expense)/income	**(406)**	688
Operating expenses	**(158)**	(961)

(b) IAS 24 Related Party Disclosures

The following disclosures are made in accordance with the provisions of IAS 24 *Related Party Disclosures*. Under IAS 24, Key Management Personnel ('KMP') are defined as comprising Executive Directors, Non-Executive Directors and Senior Executive Officers. As at 31 December 2023 the Bank has 11 KMP (2022: 9 KMP).

(i) Compensation of Key Management Personnel ('KMP')

Compensation of KMP, namely Executive and Non-Executive Directors and Senior Executive Officers, in office during the year is paid by AIB and allocated to the Bank under the Outsourcing and Agency Agreement.

Total compensation to KMP is as follows:

	2023	2022
	€'000	€'000
Short-term compensation*	**200**	89
Post-employment benefits	**—**	—
Termination benefits	**—**	—
	200	89

*Non-Executive Directors short-term compensation comprises Directors' fees and travel and subsistence expenses incurred in the performance of the duties of their office, which are paid by AIB.

The figures shown include the figures separately reported on page 97 in respect of Directors' remuneration.

30. RELATED PARTY TRANSACTIONS (continued)

(b) IAS 24 Related Party Disclosures (continued)

(ii) Transactions with Key Management Personnel ('KMP')

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 Bank, and do not involve more than the normal risk of collectability or present other unfavourable features. Loans to Executive Directors and Senior Executive Officers are made on terms available to other employees in the Bank 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 Bank and the KMP, as defined above, together with members of their close families and entities influenced by them are shown in the following table:

	2023	2022
Loans outstanding	€'000	€'000
At 1 January	321	154
Loans issued during the year	491	—
Net loan repayments during the year/change of KMP/other	(637)	167
At 31 December	175	321

The balances outlined above include loans, quasi loans and credit transactions held by the connected persons of KMP identified as such during the reporting period.

(c) Companies Act 2014 disclosures

(i) Directors' remuneration

	2023	2022
	€'000	€'000
Directors' fees	200	89
	200	89

The Non-Executive Directors' fees are non-pensionable.

The Directors do not participate in share option plans, therefore there were no gains on exercise of share options during the financial year in accordance with Section 305(1) of the Companies Act 2014.

There were no amounts paid (2022: nil) to persons connected with a Director in accordance with Section 306(1) of the Companies Act 2014.

30. RELATED PARTY TRANSACTIONS (continued)

(c) Companies Act 2014 disclosures (continued)

(ii) 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 10 Directors in office during the year, 2 of whom availed of credit facilities (2022: 2). Of the Directors who availed of credit facilities, 2 had balances outstanding at 31 December 2023 (2022: 2).

Details of transactions with Directors for the year ended 31 December 2023 are as follows:

	Balance at 31 December 2022 €'000	Amounts advanced during 2023 €'000	Amounts repaid during 2023 €'000	Balance at 31 December 2023 €'000
Chris Curley				
Loans	**127**	**—**	**(30)**	**97**
Interest charged during the year				**2**
Maximum debit balance during the year*				**127**
Eamonn Quinn				
Loans	**194**	**—**	**(19)**	**175**
Interest charged during the year				**8**
Maximum debit balance during the year*				**194**
Total loans to Directors	**321**	**—**	**(49)**	**272**

*The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

All facilities are performing to their terms and conditions. An ECL allowance is recognised for all loans and advances. Accordingly, an insignificant ECL is held on the above facilities at 31 December 2023. On 21 February 2024, Eamonn Quinn fully redeemed the outstanding loan balance in line with standard contractual terms and as of the date of the approval of these accounts, Mr. Quinn no longer has facilities with the Bank.

Gerry Gaffney, Yvonne Hill, Conor McGrath, Paul Owens, James Murphy, Andy Maguire, Padraig Brosnan and Carol Meehan had no facilities with the Bank during 2023.

Details of transactions with Directors for the year ended 31 December 2022 are as follows:

	Balance at 31 December 2021 €'000	Amounts advanced during 2022 €'000	Amounts repaid during 2022 €'000	Balance at 31 December 2022 €'000
Chris Curley				
Loans	154	—	(27)	127
Interest charged during the year				4
Maximum debit balance during the year*				154
Eamonn Quinn				
Loans(1)	215	—	(21)	194
Interest charged during the year				3
Maximum debit balance during the year*				215
Total loans to Directors	369	—	(48)	321

(1)Eamonn Quinn drew down the loan in 2006 under the Bank's standard terms as offered to customers at that time and has performed in accordance with those terms.

*The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

All facilities are performing to their terms and conditions. An ECL allowance is recognised for all loans and advances. Accordingly, an insignificant ECL is held on the above facilities at 31 December 2022.

Gerry Gaffney, Yvonne Hill, Conor McGrath, James Murphy and Paul Owens had no facilities with the Bank during 2022.

30. RELATED PARTY TRANSACTIONS (continued)
(c) Companies Act 2014 disclosures (continued)
(iii) Connected persons
The aggregate of disclosable loans to connected persons of Directors in office during the year are as follows:

	Balance at 31 December 2022	Amounts advanced during 2023	Amounts repaid during 2023	Balance at 31 December 2023
	€'000	€'000	€'000	€'000
Padraig Brosnan (1 person)				
Loans	116	—	(6)	110
Interest charged during the year				6
Maximum debit balance during year*				116
Chris Curley (1 person)				
Loans	—	491	(10)	481
Interest charged during the year				9
Maximum debit balance during year*				491
James Murphy (1 person)				
Loans	55	—	(9)	46
Interest charged during the year				2
Maximum debit balance during year*				55

*The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

	Balance at 31 December 2021	Amounts advanced during 2022	Amounts repaid during 2022	Balance at 31 December 2022
	€'000	€'000	€'000	€'000
James Murphy (1 person)				
Loan	63	—	(8)	55
Interest charged during the year				2
Maximum debit balance during year*				63
Conor McGrath (1 person)				
Loan	337	—	(337)	—
Interest charged during the year				3
Maximum debit balance during year*				337

*The maximum debit balance is calculated by aggregating the maximum debit balance drawn on each facility during the year.

An ECL allowance is recognised for all loans and advances. Accordingly, an insignificant ECL is held on the above facilities at 31 December 2023. All facilities are performing to their terms and conditions.

(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 2023 represents less than 0.06% of the net assets of the Bank. (2022: 0.03%).

(d) Summary of relationship with the Irish Government
The Irish Government is recognised as a related party under IAS 24 *Related Party Disclosures* as it is in a position to exercise significant influence over AIB Group. The relationship between the AIB Group and the Government is governed by a Relationship Framework which is available on the Group's website at www.aib.ie/investorrelations.

Ordinary shares
At 31 December 2023, the State held 40.77% of the ordinary shares of AIB Group plc (31 December 2022: 56.89%). The reduction was following a directed share buyback, the sell down of shares, the placing of shares and disposals as part of a pre-arranged trading plan.

Notes to the financial statements

31. SEGMENTAL INFORMATION
The Bank's income and assets are entirely attributable to mortgage lending activity in the Republic of Ireland.

32. REGULATORY COMPLIANCE
The Bank’s policy is that the Bank must comply at all times with its externally imposed capital ratios.

33. ULTIMATE PARENT COMPANY
The Bank is a wholly owned subsidiary of AIB. The ultimate parent company of the Bank is AIB Group plc, a company registered in the Republic of Ireland.

The ultimate parent company is the largest group of which the Bank is a member, for which consolidated financial statements are prepared. The financial statements of AIB and AIB Group plc are available from its registered address at AIB Group plc, 10 Molesworth Street, Dublin 2. Alternatively, information can be viewed by accessing AIB’s website at www.aib.ie/investorrelations.

34. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD
There have been no significant events affecting the Bank since the reporting date which require disclosure or amendment to the financial statements.

35. APPROVAL OF FINANCIAL STATEMENTS
The financial statements were approved by the Board of Directors on 4 March 2024.