AIB Group (UK) p.l.c.

Annual Financial Report

for the year ended 31 December 2019

Company number: NI018800

Contents

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

How we’ve done

2019 Performance highlights

2018 Performance highlights

AIB UK Group’s performance and key performance indicators below are presented to exclude those items that the Bank believes obscure the underlying performance trends of the business. These measures are considered Alternative Performance Measures ('APMs') and a description of AIB UK Group's APMs and their calculation is included on page 20 of this report. A reconciliation to the statutory view of performance is included in the Financial review on page 11.

Profitable & Efficient	Net interest margin ('NIM') 2.3% 2.1%	Banking net interest margin 3.3% 3.2%	NIM improvement of 18 basis points ('bps') driven by full year impact of base rate rise compared to 2018 (rate rise from August 2018) and continued active management of legacy higher rate deposits.
	Cost income ratio 42% 49%		Reduction as a result of increased income and effective cost management during the year.
	Underlying Profit before tax £172m £128m	Statutory Profit before tax £164m £129m	Improved underlying profit before tax reflecting net interest income growth and effective cost controls during the year.
	Return on equity ('ROE') 5.6%[1] 6.1%		ROE decreased by 56bps reflecting the impact of the write off of the deferred tax asset in 2019.

Strong Balance Sheet	Total capital ratio 17.6% 17.2%	Leverage ratio 11.2% 10.4%	Strong and accretive capital position, stable leverage position.
	Non-default loans £7.0b £6.6b	Default loans £0.2b £0.2b	Modest growth delivered in non-default loans. Continued focus on the management of default loans.
	Customer deposits £8.9b £8.9b	Liquidity coverage ratio ('LCR') 154% 177%	Reduction in LCR reflects a reduction in the liquidity buffer as a result of the growth in the customer loan book and an increase in financial customers outflows.

Franchise	New lending £2.1b £1.9b	Continued growth in new lending despite a challenging market backdrop, cementing our focused sector strategy.
	Transactional net promoter score (NI) +42 +37	Key driver has been improvement in the branch customer experience.

[1] 2019 ROE reflects underlying performance. Please refer to page 20 for further details on this APM.

At a glance

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

What we do

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

In Great Britain, we mainly concentrate on corporate & commercial banking.

In Northern Ireland, we offer business banking, personal banking and mortgages.

We create value by providing products and services that help customers to manage their finances and fuel economic growth.

We have a committed focus on British-Irish Trade, meeting the needs of companies in Ireland and the UK who are operating, or want to set up operations, in either jurisdiction.

Our divisions

AIB GB

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

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

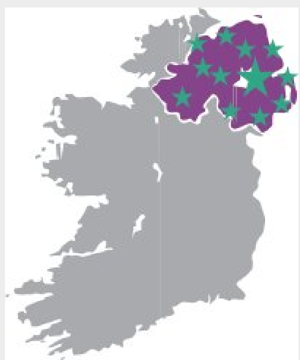
Banking services include lending, treasury, trade facilities, asset finance, invoice discounting and day-to-day transactional banking.

AIB NI

Our business in Northern Ireland, which has been operating under the First Trust Bank brand since 1991, recently rebranded to AIB NI.

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

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



UK Financial Solutions Group ('FSG')

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

Our ambition & values

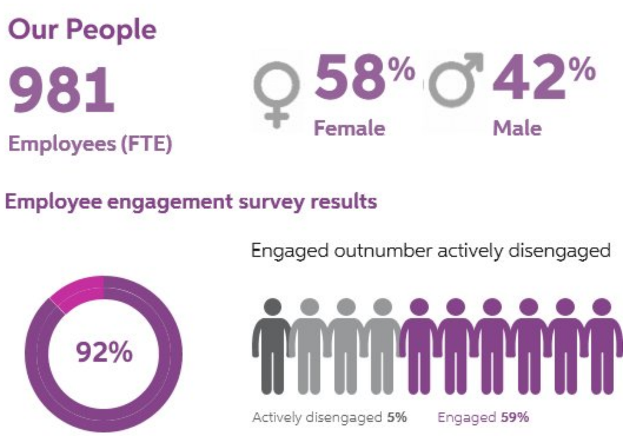
Everything starts and ends with our customers. Every action we take and decision we make centres on putting customers first.

Our ambition is to be at the heart of our customers' financial lives, always being useful and always providing an exceptional customer experience.

How we run our business and measure our progress

Four strategic pillars determine our areas of focus and drive our investment programme. These pillars are set out below.

	What this means	Measure	Description
Customer First	We put our customers at the heart of our organisation, continually adapting our product and service offerings to meet their needs. We have deep expertise in chosen sectors and customer segments. We provide a digitally-enabled, multi-channel banking experience which allows customers to interact with the Bank how and when they want.	Customer Journey (days to drawdown)	A measure of time between information received from the customer to drawdown
		Net Interest Margin	A measure of the difference between the interest income generated and the amount of interest paid out relative to (interest earning) assets
Simple & Efficient	We make things simpler, focusing our efforts on what has the greatest impact on our customers' experiences. Our products and services are simple and easily accessible, supported by a resilient and agile technology platform.	Operational productivity/ Re-work	Measure of the number of cases processed at each stage of the drawdown journey and the level of re-work required
		Cost Income Ratio	Financial benchmark of efficiency
Risk & Capital	We increase the value of the business while maintaining a strong risk management framework, improved asset quality and robust capital levels. We offer value to our customers while consistently delivering a strong financial performance that paves the way for future development and addresses legacy challenges.	Risk Adjusted Return on Capital	A risk-based profitability measurement for analysing risk-adjusted financial performance
		Non-performing Loan Exposures	Measures the credit quality of our loan stock
Talent & Culture	We ensure we have the right talent, skills and capability within the organisation to support accountable, collaborative and trusted ways of working. We promote a culture of diversity and inclusion, where people can be at their best.	Gender Balance	% females in management roles
		Engagement	Employee engagement relative to Gallup client population



What makes us different

A banking relationship based on

- ✓ an understanding of our customers' businesses
- ✓ a differentiated service proposition
- ✓ an ability to respond and deliver in a timely fashion
- ✓ flexibility when required
- ✓ consistency in the relationship management experience

Chairman's statement

"Concentrating on Customer First, Simple & Efficient, Risk & Capital and Talent & Culture is accelerating our transformation into the long term sustainable and operationally resilient bank that is fit for the 2020's and is what our customers want, need and expect."

Peter Spratt

Introduction

At the start of 2019 the Board considered the year would be one of ongoing economic and political uncertainty, not least due to the protracted discussions on Brexit. Given the continued difficult business conditions these uncertainties create we determined that during 2019 the Bank should continue to focus on our fundamentals. Accordingly, through the year we worked hard at getting better at the basics, including in respect of our strategic pillars of Customer First, Simple & Efficient, Risk & Capital and Talent & Culture. Concentrating on delivering in these areas is, I believe, accelerating our transformation into the long term sustainable and operationally resilient bank that is fit for the 2020's and is what our customers want, need and expect.

Specifically, we have invested in helping our customers, be they personal, or small, medium or large businesses, by developing further our digital offerings, including expanding our multi-channel banking experience with the release of a new Internet Business Banking ('IBB') platform. We have also focussed on improving our help for customers facing difficulties by providing additional website content and simplifying our interaction with them.

A key milestone achieved in 2019 was rebranding First Trust Bank ('FTB') as AIB NI. This is the first time in almost thirty years that AIB will be our consistent brand across all locations and represents an important step in meeting our commitment to being Simple & Efficient for our customers and our business.

As anticipated by the Board, the political uncertainty around Brexit did indeed continue throughout 2019 and the negotiations on the terms of the UK's departure from the European Union ('EU') will now continue throughout 2020. This, together with the uncertainty generated by the general slowdown in the world economy, resulted in slow UK economic growth in 2019. The Bank of England held its low interest rates unchanged throughout the year and consumer spending levels continued to be a strong driver of the economy, supported by low unemployment rates and increased wage growth. While house prices saw moderate increases, this is seen in the context of a general cooling in the housing market (primarily in Great Britain) and house price growth rates in the UK.

Financial performance and business strategy

While the political and economic environment remained challenging during 2019, our strategy of focussing our expertise on our specialist sectors and customer segments to build sustainable growth has led to AIB UK Group achieving increased underlying profit before taxation of £172m and statutory profit before taxation of £164m. This was largely driven by increased net interest income, owing to growth in new business lending, coupled with our continued focus on managing our cost base and our defaulted loans.

Customers and colleagues

Our customers are always at the heart of our organisation, and as highlighted above, we launched two key initiatives aimed at supporting them better in their interactions with us.

The new IBB platform provides a significant upgrade and allows customers to interact with us how and when they want to. It also gives us the foundation to bring more digital offerings to our business customers in the future.

The launch of our new website content, offering additional support and guidance to our customers who may be facing challenges is an important step in enhancing our online presence and our ability to back our customers. We want our customers to know that we are here for them and that they can talk to us at any stage. These web pages will help facilitate this engagement.

Providing these services to our customers moves us forward towards our strategic goals of keeping our customers at the forefront of our ambition and ensuring our products and services are simple, easily accessible and supported by a resilient and agile technology platform.

2019 saw the launch of the AIB UK Wellbeing programme which aims to promote the wellbeing of our people across a range of categories including mental, physical and financial. This programme is synergistic with our ongoing Diversity & Inclusion agenda and will help us progress towards our aim of cultivating a balanced, fully representative workforce, which is ultimately good for our customers and our colleagues.

We have also put a lot of work into delivering on our cultural ambition in the belief that if our culture is right, then our people, customers and stakeholders will all benefit. This is a continuous journey we have been committed to over recent years. Accordingly, it was really encouraging to win the Best Large Organisation award at the 2019/20 Business Culture Awards. This is welcome recognition that the effort put in by our management and colleagues to change behaviours is bearing fruit. We remain committed to making further progress on this front in 2020 and beyond.

Board of Directors

The Board of Directors have paid particular attention to stakeholder engagement in 2019, with discussions held on identifying our key stakeholder groups and determining our level of engagement and inclusion of different viewpoints in our decision making process. As a result, we have introduced a new approach to our Board and committee papers to ensure stakeholder interests are addressed. More detail on this process can be found in our Section 172(1) statement on pages 21-23.

There were a number of changes to the Board during the year. We would like to thank both Mark Bourke and Margaret Butler for their service on the Board, as they stepped down as Directors. Jim O'Keeffe, a nominee from the Parent, joined the Board in early 2019. Regrettably, due to Jim taking on additional responsibilities at the Parent, as Managing Director of Retail Banking in late 2019, a position which requires all of his time, he resigned from the Board in January 2020.

Brendan O'Connor has also indicated his intention to step down as Managing Director and leave AIB UK Group during 2020, having been a member of the Parent Group for over 35 years. Brendan has led the transformation of AIB UK Group since 2015 and I and the rest of the Board would like to thank him for his commitment to, and success in developing and growing the Bank throughout his tenure. The progress made by the Bank under Brendan's leadership has been very significant, such that the Bank is now much stronger operationally and financially than when he joined it. We respect his wish to move on and acknowledge the significant contribution he has made.

Subject to receiving regulatory approval, Robert Mulhall will succeed Brendan, following which Brendan will cease to be a director of AIB UK Group. Robert comes with a wealth of experience, having held roles in AIB plc in recent years as Managing Director of Retail, Commercial and Business Banking and Managing Director of Consumer Banking. I look forward to welcoming Robert to the Board and to working with him as we continue on our path to grow a sustainable and operationally resilient business.

Outlook

Our strategy for 2020 continues to focus on our customer experience, making it progressively easier for our customers to do business with us. We believe that increasing our momentum in our sector focussed growth strategy will enable the Bank to steer a successful path through the political and economic environment in 2020.

Peter Spratt
Chairman

2 March 2020

Managing Director's review

"AIB UK delivered a positive financial performance in uncertain economic times and we are in a strong position to deliver sustainable growth over the coming years"

Brendan O'Connor

Introduction

2019 marked another period of strong performance for AIB UK. Our sector-focused strategy continues to mature and deliver sustainable returns in difficult market conditions. Uncertainty over Brexit and the nature and form of the outcomes that might ultimately emerge was a defining characteristic of the year. We believe we have taken the necessary precautionary steps to ensure we are fully equipped to deal with the consequences arising from the UK's exit from the EU. Many of the core sectors and industry segments important to the business of AIB UK remain relatively robust with solid fundamentals and long term demographic and industry trends supportive of continued investment, however, we have exercised increased caution in certain sectors that have been adversely affected by economic uncertainty.

Economic factors

2019 has been a difficult year for the UK economy with Brexit uncertainty and global trade tensions being contributory factors to a Gross Domestic Product ('GDP') growth rate estimated at just 1.4%. In an effort to boost economic activity, the Bank of England maintained interest rates at 0.75% and the European Central Bank ('ECB') cut rates further into negative territory. This low interest rate environment has proved challenging and has had an impact on absolute levels of profitability across most of the banking sector in the UK and Europe. The UK's strong track record in securing overseas investment has also been hindered, with foreign capital deployed in Britain falling sharply since the EU referendum.

These factors have led to a cautious approach by businesses with many companies choosing to delay investment decisions. Some sectors have felt these impacts more readily than others and we have adjusted our risk appetite accordingly. However, we remain committed to our core sectors such as Energy, Hotels and Healthcare that we believe have sufficiently strong fundamentals to withstand these uncertain economic times.

Customer first

Putting our customers first impacts everything we do. Our purpose is simple - we back our customers to achieve their dreams and ambitions.

In 2018, we launched our Open Banking initiative and new Application Programming Interface ('API') channel in compliance with the Competition and Markets Authority's ('CMA') Open Banking requirements for current accounts. In 2019, we began to explore how Open Banking could deliver solutions for our customers. For example, we launched a pilot with London based Fintech, Fractal Labs, to allow business customers to model management of their cash flow with access through our IBB system.

In Northern Ireland a number of new initiatives have launched including the Bank at Work scheme, cash-back incentives for debit and credit card holders, online travel insurance for personal customers, a new self-build mortgage proposition and a paperless mortgage portal. The guiding principle behind these initiatives is to ensure we are a bank that is simple to deal with and one that places customer needs at the heart of everything we do.

Simple & efficient

Our Ways of Working ('WoW') programme is an important enabler of our continuing drive to practise smarter and more collaborative working practices. Ultimately our goal is to make our processes as efficient as possible so our engagement with our customers is as frictionless as possible. In 2019 roll out continued across the business, and we have identified distribution activities that can be eliminated, simplified or standardised to generate capacity for our frontline colleagues to focus on customer facing, value-add activities. We believe that adopting Lean principles can impact all areas of the Bank positively. With that in mind, 100 of our people are now accredited in LCS1a (a Lean qualification associated with Cardiff University) supporting growth of a continual improvement mind-set in the Bank.

Risk & capital

In light of the increasingly uncertain economic outlook that became apparent during the year, we exercised intense oversight of our lending portfolios and completed detailed reviews of our lending sectors. Despite a general tightening of our risk appetite, priority sectors did not display untoward signs of stress as of the end of the year. The Bank remains in a strong position to be able to withstand even severe economic impacts with a Common Equity Tier 1 ('CET1') ratio of 17.6%.

Talent & culture

In 2019 we implemented a new career structure which provides clarity to our colleagues on career levels and core jobs. This new structure enables us to become a more transparent and agile organisation and gives our people the chance to develop their careers in AIB UK in exciting directions they may not have previously considered.

Our Cultural Ambition

"We act together to deliver a better future for our customers.

Always open, challenging ourselves to make things quicker and easier.

Stepping up and owning it. Doing it right and making it happen."

A key priority in 2019 was to develop further our next generation of leaders. In recent years we focused on improving technical expertise but to move to an even higher level on culture we realised we also needed to concentrate on building behavioural capability. Hence, we developed an agreed set of accountabilities that our people leaders are expected to embody to be role models for the organisation, and rolled out a suite of opportunities for leadership development across all grades.

Furthermore, we welcomed a cohort of new apprentices and graduates to the business ensuring a steady pipeline of talent to serve AIB UK well for years to come.

We take the view that making AIB UK a great place to work, is not only good for our people but enables better outcomes for our customers too. With that in mind we launched our wellbeing strategy which to date has focused on mental and physical fitness. Initiatives have included sessions with external speakers and roundtable discussions on a range of topics including mental health and diversity and inclusion.

We also celebrated International Women's Day with a week of activities, including confidence workshops and webinars for our female population. We remain committed to achieving a 50/50 male-female split at management level in the medium term. Currently females represent 40% of our management population.

Our cultural journey is a work in progress but we have come a long way. We have articulated our target culture and made great strides to operationalise our cultural ambition. A central part of that has been our efforts to promote diversity and inclusion throughout the organisation. Hence, it was particularly gratifying to be nominated for multiple awards for our work in both delivering culture change and promoting diversity and inclusion.

Sustainability

As a bank, we recognise our role in the economy and in society. We aspire to be environmentally conscious and socially responsible. To that end, we are committed to contributing to, and aligning ourselves with, the programme of activity that reflects these challenges at the wider Parent Group level.

In particular we aim to:

- Contribute to and implement AIB plc's sustainable business strategy as it applies to AIB UK and to be active advocates of the sustainability agenda in AIB UK;
- Build a programme of activity for AIB UK that supports the Parent Group ambition to be a leading bank in supporting the transition to a low-carbon economy;
- Build AIB UK's reputation as a provider of green finance; and
- Help AIB UK build an enduring 'social licence to operate' enabling the business to demonstrate our Purpose actively.

Regulatory and other evolving issues

We are operating in a demanding regulatory, political and economic environment. During 2019, the Bank responded to our regulators' expectations in planning for the mitigation of financial risks arising from climate change and high cost of credit regulation designed to reduce the impact of unauthorised overdraft charges on potentially vulnerable customers. In addition, further ongoing enhancements are being carried out as required under Operational Continuity In Resolution and Operational Resilience regulation; and work is underway on the London Inter-Bank Offered Rate ('LIBOR') transition that will take place in 2021.

Non-financial information statement

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

Information	Location of disclosure
Description of our business model	In 'At a glance' section on pages 3 & 4
Principal risks relating to:	
Environmental matters	Within Strategic risk and Credit risk on page 27
Social and employee matters	Within Conduct risk and People & Culture risk on page 30
Respect for human rights	Within Regulatory & Compliance risk on page 29 and Conduct risk on page 30
Bribery and corruption	Within Operational risk and Regulatory & Compliance risk on page 29, and Conduct risk page 30
Non-financial Key Performance Indicators ('KPI')	Key non-financial KPIs are detailed below: Customer transactional satisfaction is reported on page 2, customer complaints page 30 under Conduct risk Employee engagement key indicator is reported on page 4 and page 30 Gender balance is reported on page 4 (all employees) and on page 8 (% of females in management roles)
Environmental matters	Sustainability is referred to on page 8 Climate Change Action Plan referred to under Strategic risk mitigants on page 27
Social and employee matters	Social contribution through employees entitled to two volunteering days per annum; continued fundraising for nominated charities, Hospice UK, NI Hospice and Age NI Talent & Culture are described on page 4 including reference to diversity and inclusion Reference to Board responsibility for diversity and succession planning under Nomination Committee on page 36 The Bank's Gender diversity policy statement and the annual Gender Pay Gap report are published on the AIB GB website
Respect for human rights	The Bank's Modern Slavery statement 2019 is published on both the AIB GB and AIB NI websites
Bribery and corruption	Anti-money Laundering Directive ('AMLD') referenced on page 41

Conclusion

As always, our endeavours are guided by our ultimate purpose of being able to back our customers to achieve their dreams and ambitions. The work we have completed this year allied to the prudent approach taken to growth means we are in a strong position entering 2020. I'm proud to say that our people continue to go above and beyond, act with integrity and deliver for our customers. The successful performance of the business in 2019 is a testament to the ongoing commitment and application of everyone on the AIB UK team. The future is bright for AIB UK and we commit to continuing to place our customers at the heart of all decisions for 2020 and beyond.

In Northern Ireland, we announced the rebrand of FTB to AIB NI. The FTB brand has served our customers and AIB UK Group well for nearly thirty years and has left us in a strong position as we enter a new chapter for AIB in Northern Ireland. This move is a natural extension of our recent transformation journey and should allow our business in Northern Ireland to leverage Parent Group capability more effectively. With our branch network refurbishment now complete and renovations in our Belfast head office underway, this is an exciting time for AIB in Northern Ireland.

On a personal note, in September 2019 I announced my decision to step down as Managing Director of AIB UK. My colleague, Robert Mulhall (former Head of Consumer Banking in AIB plc), will take over the role in March 2020, subject to regulatory approval, and I have every confidence in Robert's ability to lead AIB UK over the coming years. Our business has undergone extensive change over recent times and Robert will take on a team of people who have risen to many challenges and embraced the changes we have made to give our business a sustainable platform for the future. I wish Robert every success.

Finally, I would like to thank my colleagues on the UK Executive Committee, as well as the Chairman and Board of AIB UK for their unfailing support over the past number of years and wish them every success in the years ahead.

Brendan O'Connor
Managing Director

2 March 2020

Financial review

"2019 saw another year of strong financial performance for the Bank despite continued economic uncertainty, with further growth in net lending and profit before tax, as we further embed our focused sector strategy."

Rachel Lawrence

Basis of preparation

This Financial review is prepared using International Financial Reporting Standards ('IFRS') and non-IFRS measures. Non-IFRS measures include management and regulatory performance measures which are considered APMs. A description of AIB UK Group's APMs and their calculation are set out on page 20.

These management performance measures are presented as they reflect the Board's view of AIB UK Group's underlying performance without distortions caused by non-recurring items that are not reflective of AIB UK Group's ongoing business activities. Management performance presented should be considered in conjunction with IFRS information as set out in the consolidated financial statements from page 54 onwards.

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

Summary income statement	2019 £m	2018[1] £m
Net interest income	249	227
Fees, commissions and other income	79	55
Underlying operating income	328	282
Total costs	(138)	(137)
Underlying operating profit before expected credit losses	190	145
Credit impairment losses	(18)	(19)
Profit on disposal of property	—	2
Underlying profit before tax	172	**128**
Profit on sale of loan portfolio	—	5
Voluntary severance	(4)	(5)
Past service costs	—	(2)
FSCS levy provision release	—	1
Property strategy costs	(1)	—
Customer redress	(3)	(1)
Reversal of property impairment	—	3
Total underlying adjustments	(8)	1
Statutory profit before tax	164	**129**
Tax	(58)	(18)
Statutory profit after tax	106	**111**

Summary balance sheet	31 Dec 2019 £m	31 Dec 2018 £m
Gross loans to customers	7,194	6,840
Expected credit losses	(89)	(118)
Net loans	7,105	6,722
Other assets	4,547	5,147
Total assets	11,652	**11,869**
Customer accounts	8,893	8,878
Other liabilities	996	1,162
Shareholders' equity	1,763	1,829
Total liabilities and shareholders' equity	11,652	**11,869**

(1) Underlying comparatives restated for service charge income from fellow subsidiary.

Income statement review

2019 underlying profit before tax of £172m increased by £44m (34%), driven by:

- an increase in operating income reflecting base rate increase, growth in gross loans, accelerated fees relating to early redemptions;
- continued focus on cost effective cost management; and
- effective credit risk management.

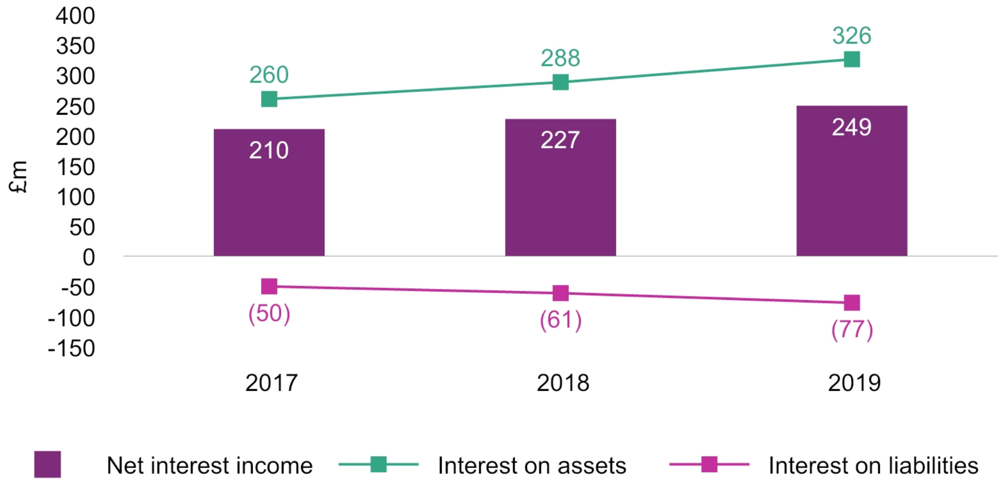
Underlying operating income and net interest margin (‘NIM’)

Underlying operating income	NIM	Banking NIM
£328m	**2.3%**	**3.3%**
£282m	2.1%	3.2%

Net interest income

	2019 £m	2018 £m	change %
Net interest income	**249**	227	10.5
Average interest earning assets	**10,908**	10,821	0.8
	%	**%**	**%**
NIM	**2.3**	2.1	0.2
Banking NIM	**3.3**	3.2	0.1

Net interest income



Net interest income increased by £22m (10%) compared to 2018, driven mainly by growth in interest income reflecting the increased base rate for the full year and net lending growth.

Net interest income (continued)

	Year ended 31 December 2019			Year ended 31 December 2018		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Assets	£m	£m	%	£m	£m	%
Loans and receivables from customers	7,012	257	3.7	6,505	232	3.6
Balances with central banks & other interest earning assets	3,896	69	1.8	4,316	56	1.3
Average interest earning assets	**10,908**	**326**	**3.0**	**10,821**	**288**	**2.7**
Non interest earning assets	956			1,020		
Total assets	**11,864**	**326**		**11,841**	**288**	
Liabilities and equity						
Customer accounts	7,145	27	0.4	6,565	24	0.4
Other interest bearing liabilities	947	50	5.3	895	37	4.1
Average interest bearing liabilities	**8,092**	**77**	**1.0**	**7,460**	**61**	**0.8**
Non-interest bearing liabilities	1,876			2,579		
Equity	1,897			1,802		
Total liabilities and equity	**11,864**	**77**		**11,841**	**61**	
Net interest income	10,908	249	2.3	10,821	227	2.1
Banking net interest income	7,012	230	3.3	6,505	209	3.2

Despite a challenging market customer yields have increased, reflecting our focus on sector strategy. Additionally, this has been further impacted by the full year impact of the increase in base rate in August 2018.

Underlying fees, commissions and other income

Other income increased by £24m (44%) to £79m compared to 2018. This is predominantly driven by accelerated fees relating to early redemptions.

Total costs and cost income ratio ('CIR')

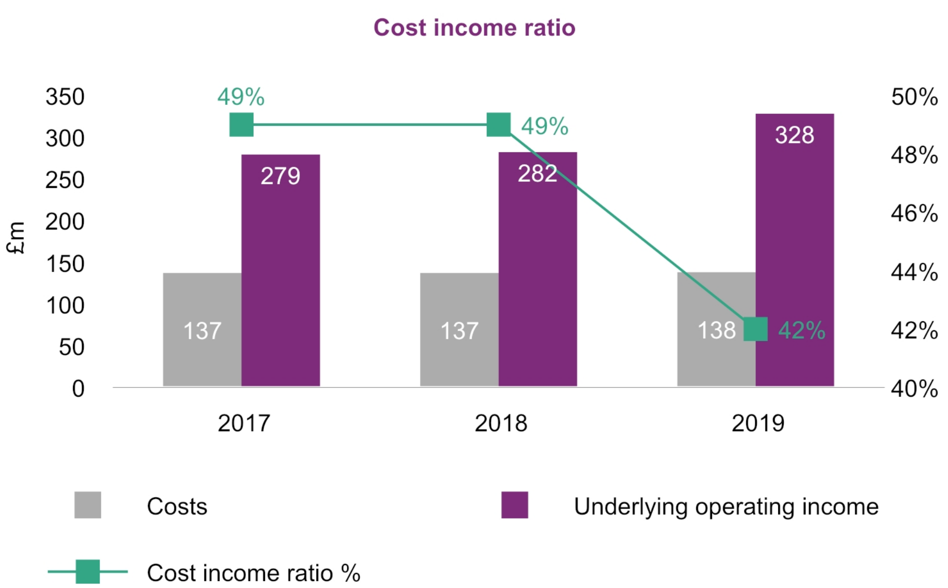
Total underlying costs	CIR
£138m	**42%**
£137m	**49%**

Total underlying costs	2019 £m	2018 £m	change %
Personnel costs	73	72	1.7
General & administrative costs	52	61	(14.4)
Depreciation, impairment and amortisation	13	4	216.2
Total underlying costs	**138**	**137**	**1.1**
Employee numbers at period end (FTE)	981	1,022	(4.0)
Average employee numbers	1,000	1,043	(4.1)

Total underlying costs have increased by £1m.

Personnel costs increased by £1m compared to 2018 reflecting the impact of salary inflation which offset the benefit of a small reduction in headcount.

Increase in depreciation and amortisation is a result of continued investment in strategic projects.



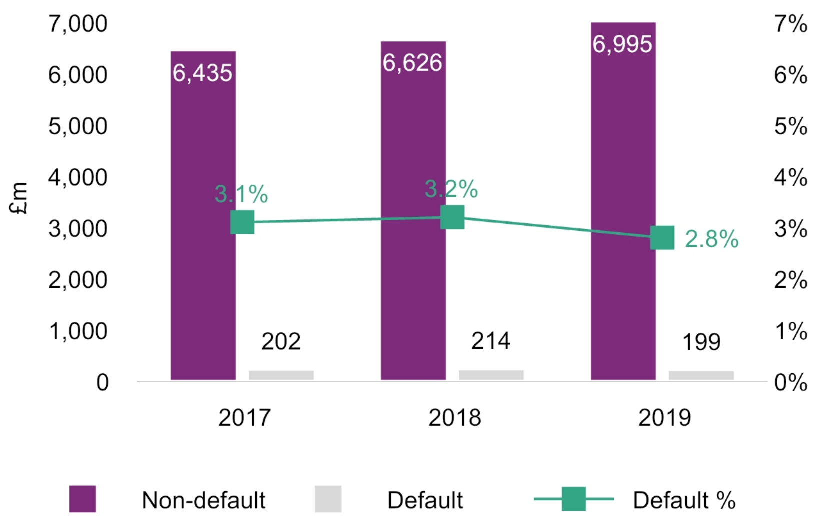
Balance sheet review

Assets

Non-default loans	Default loans	New lending	Expected credit losses
£7.0b	**£0.2b**	**£2.1b**	**£0.1b**
£6.6b	£0.2b	£1.9b	£0.1b

Assets	31 Dec 2019 £m	31 Dec 2018 £m	change %
Gross loans to customers	**7,194**	6,840	5.2
Expected credit losses	**(89)**	(118)	(24.8)
Net loans to customers	**7,105**	6,722	5.7
Cash and balances at central banks	**3,328**	3,526	(5.6)
Intercompany assets	**255**	299	(14.5)
Other assets	**964**	1,322	(27.1)
Total assets	**11,652**	**11,869**	**(1.8)**

Non-default and Default loans



Gross loans to customers

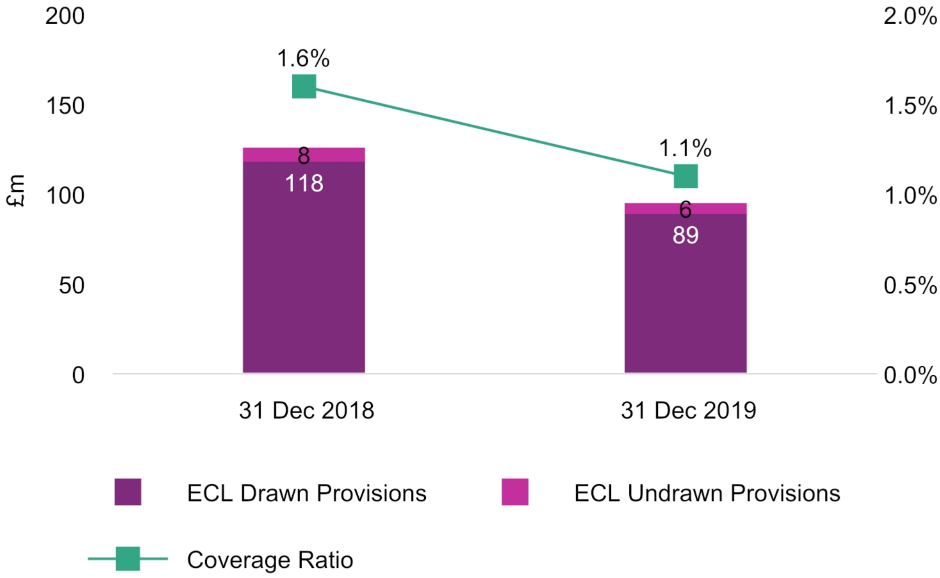
Non-default loans increased £0.4b reflecting new lending of £2.1b offset by redemptions of £1.7b. Default loans decreased by £15m reflecting redemptions, disposals, write offs and transfers from Stage 3 default of £173m, offset by transfers to Stage 3 default and other movements of £158m.

Provisions

Balance sheet provision for loss allowances are on an IFRS 9 expected credit loss ('ECL') basis. The ECL on loans at 31 December 2019 is £89m and ECL on undrawn facilities and guarantees is £6m. The ECL on undrawn facilities and guarantees is included in other liabilities below.

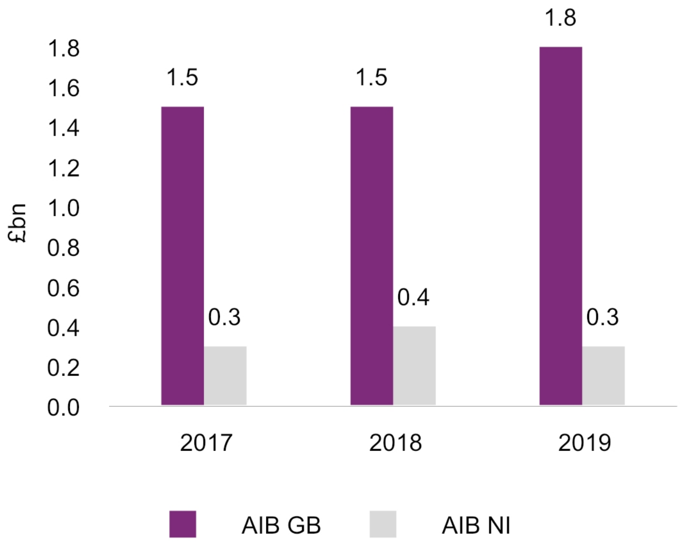
ECL provisions on loans at 31 December 2019 were £32m lower than 2018 year-end, incorporating internal write downs of customer balances and associated ECL of £26m.

Provisions and coverage ratio

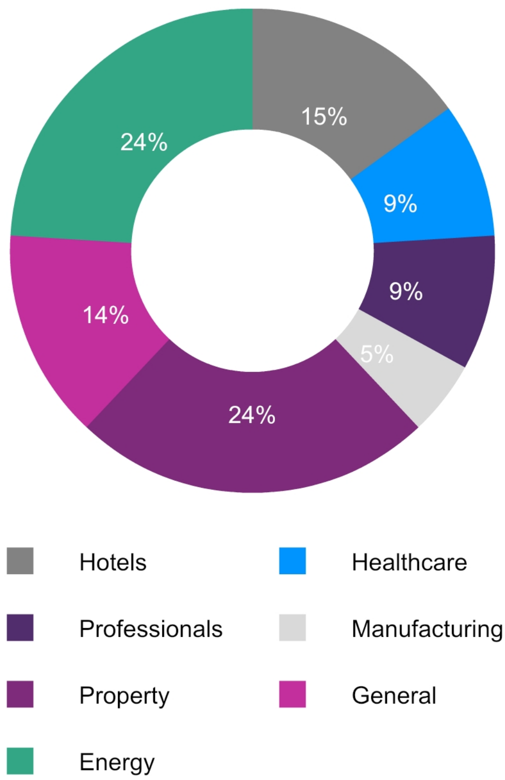


New lending and sector strategy

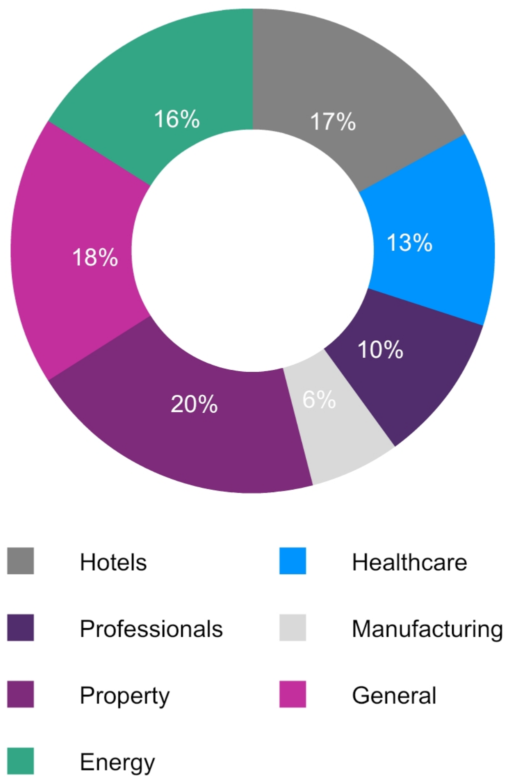
New lending trend



2019 UK New lending by sector



2018 UK New lending by sector



The Bank achieved new lending of £2.1bn, an increase of £0.2bn (7%) compared to 2018, despite continued economic and market uncertainty in the run up to Brexit. This is primarily driven by increases in corporate lending, which has seen strong growth in the energy and property sectors, with positive market penetration and evolving specialism in the social housing and offshore renewable energy markets. 90% of AIB GB new lending was in our chosen sectors, 4% higher than prior year, reflecting a continued positive impact from our sector strategy.

Liabilities and equity

	31 Dec 2019 £m	31 Dec 2018 £m	change %
Customer accounts – current accounts	5,853	5,821	0.5
Customer accounts – deposits	3,040	3,057	(0.6)
Total customer accounts	8,893	8,878	0.2
Intercompany liabilities	330	359	(8.0)
Other liabilities	666	803	(17.1)
Total liabilities	**9,889**	**10,040**	**(1.5)**
Shareholders' equity	1,763	1,829	(3.6)
Total liabilities and equity	**11,652**	**11,869**	**(1.8)**
Loan to deposit ratio	80.3 %	76.0 %	4.3

Total customer balances increased by £15m, with a small increase in current account balances being partly offset by a reduction in deposit accounts.

The decrease in other liabilities includes a reduction in £99m as notes issued in Northern Ireland are taken out of circulation.

The decrease in shareholders' funds is due to the write down of the AIB UK Group Pension Scheme ('UK Scheme') assets through other comprehensive income ('OCI') in December 2019.

Capital management and liquidity

Capital

AIB UK Group policy is to maintain adequate capital resources at all times, having regard to the nature and scale of the business, and the risks inherent in its operations. It does this through an Internal Capital Adequacy Process (‘ICAAP’). The overarching principle of the ICAAP is the explicit linkage between capital and risk; the adequacy of AIB UK Group’s capital is assessed on the basis of the risks it faces. This requires a clear assessment of the material risk profile of AIB UK Group and a consideration of the extent to which identified risks, both individually and in aggregate, require capital to support them.

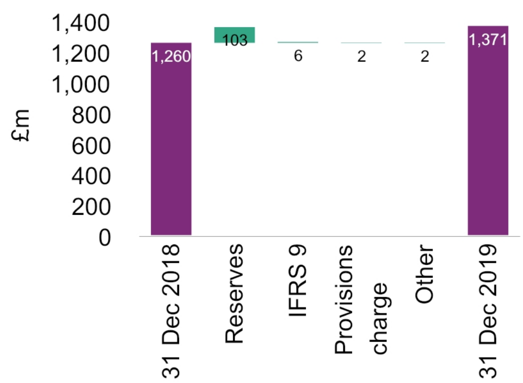
The level of capital held by AIB UK Group is influenced by the minimum regulatory requirements of the Prudential Regulation Authority (‘PRA’). The adequacy of AIB UK Group’s capital is assessed by comparing available regulatory capital resources with capital requirements expressed as a percentage of risk weighted assets ('RWA'). The minimum capital requirement under the Capital Requirements Regulation (575/2013) is a total capital (to RWA) ratio of 8% and Tier 1 capital (to RWA) ratio of 4%, from which the PRA sets individual minimum capital ratios for banks within its jurisdiction. In line with these requirements, AIB UK Group has an agreed Pillar 1 and Pillar 2a requirement of 10.73%. Our current CET1 capital ratio stands at 17.6%.

The Board reviews and approves AIB UK Group’s capital plan, at a minimum, on an annual basis. The capital planning process is fully integrated into AIB UK Group’s planning process. The capital plan considers the amount and type of capital AIB UK Group requires to support its business strategy and to comply with regulatory requirements. It takes into consideration the results of stress tests and considers strategies for hedging, releasing and raising capital in order to arrive at and maintain AIB UK Group’s desired capital profile.

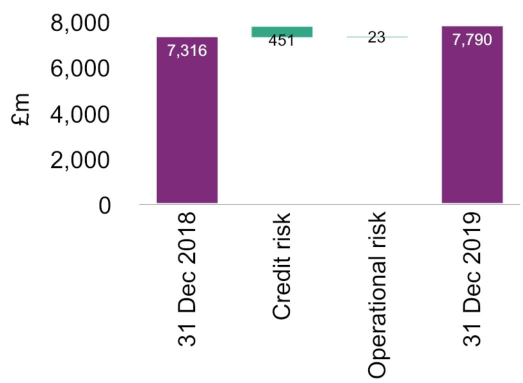
The following tables show AIB UK Group's capital resources and capital base at 31 December 2019 and 31 December 2018.

Capital resources and base	31 Dec 2019 £m	31 Dec 2018 £m
Shareholders' equity and total capital	**1,763**	**1,829**
CET 1 capital	**1,371**	1,260
Total risk weighted assets	**7,790**	7,316
	%	**%**
CET 1 capital ratio	**17.6**	17.2

CET 1 capital movements



Risk weighted assets movements



CET1 increases reflect the inclusion of 2018 operating profits, increase in transitional IFRS 9 adjustment and movements in provisions charge, derivative valuations and intangible assets.

RWA increases reflect growth in corporate exposures and operational risk due to increased operating profit, offset by reductions in residential mortgage exposures.

Liquidity

AIB UK Group continues to have a strong funding position. The loan to deposit ratio was 80% at 31 December 2019 (2018: 76%). Regulatory liquidity requirements were met at all times throughout the year.

A substantial amount of the AIB UK Group's funding is from its customer balances, which makes up 76% (2018: 75%) of its total liabilities and shareholders' equity.

Under Capital Requirements Directive IV ('CRD IV'), the key liquidity metric is a minimum LCR requirement. The LCR regulatory limit was set at 100%. As at December 2019 AIB UK Group's LCR was 154% (2018: 177%), significantly in excess of this minimum requirement in 2019.

At year-end 2019, the Bank received £45m of Minimum Requirement for Eligible Liabilities ('MREL') funds distributed from the Parent to meet the Bank of England's MREL requirements from 1 January 2020.

Further details are set out in the Liquidity Risk section of the Risk Management report on page 28.

Rachel Lawrence
Chief Financial Officer

2 March 2020

Alternative performance measures

The following is a list, together with a description, of APMs used in analysing AIB UK Group's performance.

Net interest margin	Net interest income divided by average interest earning assets.
Banking net interest margin	Net customer interest income divided by average customer interest earning assets.
Average interest earning assets	Average interest earning assets includes loans and receivables to customers. Averages are based on month end balances for all categories with the exception of loans and receivables, which are based on daily averages.
Average rate	Interest and similar income divided by average interest earning assets.
Average interest bearing liabilities	Average interest bearing liabilities includes deposits by banks, customer accounts and inter-company balances. Averages are based on month end balances for all categories with the exception of customer accounts, which are based on daily averages.
Average cost of funds	Interest expense and similar charges divided by average interest bearing liabilities.
Underlying adjustments	These are items that management believe due to their size and nature distort the comparability of performance for period to period: - Profit on sale of loan portfolio in 2018. - Voluntary severance: the costs relating to the reduction of employees. - Past service costs: defined benefit pension scheme cost of equalising Guaranteed Minimum Pensions following High Court ruling. - FSCS levy provision release: release of over provision of annual levy payable by authorised financial services firms to fund customer compensation scheme. - Property strategy costs: investment in Northern Ireland property. - Customer redress: movements in provisions held in relation to customer restitutions. - Reversal of property impairment previously charged on a property in Northern Ireland.
Cost income ratio	Total underlying operating expenses divided by total underlying operating income.
Loan to deposit ratio	Loans and receivables to customers divided by customer accounts.
Coverage ratio	Credit provisions divided by non-earning loan balances.
Return on equity	Statutory profit after tax divided by average (month end) shareholder's equity. For the purpose of the 2019 ROE %, the write down of the UK Scheme assets through OCI has been removed in order to provide an underlying ROE measure.
Default/ Non-default loans	Under IFRS 9, loans are identified as defaulted (Stage 3) or non-performing by a number of characteristics. The key criteria are: - Where the Bank considers a credit obligor to be unlikely to pay his/her credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount. - The credit obligor is 90 days or more past due on any material credit obligation. Date count starts where any amount of principal, interest or fee has not been paid by a credit obligor on the due date. - Loans that have, as a result of financial distress (as defined within the Parent Group's definition of default policy), received a concession from the Bank on terms or conditions, and will remain in the non-performing probationary period for a minimum of 12 months before moving to a performing classification. Non-default loans are classified as Stage 1 or Stage 2 based on staging characteristics as reported in note 19.

Section 172(1) statement

During the year Directors spent a significant amount of time discussing and receiving guidance on their statutory duties, including Section 172(1) of the Companies Act 2006 ('Section 172'), and were briefed on new reporting requirements for the 2019 year end. During those discussions there was a significant focus on identifying key stakeholder groups and discussing the Board's current level of engagement and incorporation of views into decision-making. As a direct result of these discussions a new approach to Board and committee papers has been introduced with greater focus on ensuring relevant stakeholder interests are clearly articulated.

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

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

The Directors also took into account the views and interests of a wider set of stakeholders, including our pensioners and our regulators.

Stakeholder group	How we engaged	How we responded
Customers	Customers are at the heart of everything the Bank does. During the year the Board received updates on key customer issues through customer service performance updates and regular business reviews. The Chairman and Managing Director have engaged with customers to enhance relationships and understand their views.	We began to explore how Open Banking could deliver solutions for our customers. We launched a pilot with London based Fintech, Fractal Labs, to allow business customers to model management of their cash flow with access through our IBB system. In Northern Ireland a number of new initiatives have launched including the Bank at Work scheme, cash-back incentives for debit and credit card holders, online travel insurance for personal customers, a new self-build mortgage proposition and a paperless mortgage portal. Roll out of our Ways of Working programme continued across the business, and we have identified distribution activities that can be eliminated, simplified or standardised to generate capacity for our frontline colleagues to focus on customer facing, value-add activities.
Employees	Every year colleagues are asked to share their thoughts on what it's like to work for AIB UK Group via the iConnect employee engagement survey. Where colleagues wish to report any concerns relating to wrong doing or misconduct, one of the ways they can do this is by raising their concerns via Speak Up, the Bank's whistleblowing service. Three Board meetings during the year were held in branches and Board members took the opportunity to meet with colleagues informally following those meetings.	We implemented a new career structure which provides clarity to our people on career levels and core jobs. This new structure enables us to become a more transparent and agile organisation. We developed an agreed set of accountabilities that our people leaders are expected to embody to be role models for the organisation, and rolled out a suite of opportunities for leadership development across all grades. We have articulated our target culture and made great strides to operationalise our cultural ambition. A central part of that has been our efforts to promote diversity and inclusion throughout the organisation. We supported the execution of an opportunity to de-risk the UK Scheme for the benefit of our employees both past and present.

Stakeholder group	How we engaged	How we responded
The Parent Group	At each meeting the Board receive updates on items considered at the Parent Board from Directors who sit on both Boards. The Parent Group's Chief Executive Officer and Chief Risk Officer ('CRO') attend Board meetings of the Bank during the year and the Bank's Chairman is a permanent invitee at the Parent Group's Board Risk Committee. The Bank's Managing Director is a member of the Parent Group's Executive Committee. The Bank holds a Board meeting in Dublin in June of each year which coincides with the Parent Group Board meeting and enables further engagement between members of both Boards.	We developed a strategy, aligned to and forming part of the Parent Group's strategy, to support our objective of being a sustainable, capital accretive business. We actively reduced our non-performing loans, aligned to the Parent's stated ambition to normalise the Parent Group's level of non-performing exposures.
Regulators	The Board has open and continuous dialogue with the Bank's regulators. The Chairman and Executive Directors have formal meetings with the PRA and ongoing engagement with the Financial Conduct Authority ('FCA'). In addition, individual Directors engage regularly with regulators through continuous assessment and proactive engagement meetings. Representatives from the PRA attended the November 2019 Board meeting to present and discuss their future expectations as set out in their annual Periodic Summary Meeting ('PSM') letter.	We responded to the PRA's expectations in planning for the mitigation of financial risks arising from climate change and high cost of credit regulation designed to reduce the impact of unauthorised overdraft charges on potentially vulnerable customers. We continued to make further enhancements as required under Operational Continuity In Resolution and Operational Resilience regulation. The Board reviewed and approved the Bank's response to the PSM letter. We approved a new third party management policy to enhance governance and Board oversight of our key outsourcing arrangements.
Communities	Members of the Board attend customer events in locations where the Bank has a significant presence, including in Northern Ireland where the Bank has strong roots in the local community. The Bank is committed to managing the wider social, environmental and economic impacts of its operations which includes the way it deals with its customers and manages sustainability issues in its supply chain. It is recognised by the Board that climate change must have greater prominence at both senior management and Board levels.	Rebranding FTB as AIB NI should allow our business in Northern Ireland to leverage Parent Group capability more effectively. Our branch network refurbishment is now complete and renovations in our Belfast head office are underway. We approved our Modern Slavery Statement which can be found on our website. We approved our Climate Action Plan and appointed a senior manager with Senior Manager Regime ('SMR') responsibility for climate change risk. Employees receive an extra two days of annual leave to give their time as volunteers and fundraisers to a charity or cause that matters to them.

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

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

Decision	Stakeholder	Considerations
Strategy development As 2019 represented the final year of the Bank's three year strategic plan, the Board spent significant time assessing, discussing and debating future strategic options for the Company.	The Parent Group	The strategy was developed alongside and aligned to the Parent Group's strategy and focused on the Bank continuing to be a sustainable, capital accretive business which aspires to be environmentally conscious and socially responsible.
	Customers	The strategy seeks to enhance customer experience.
	Employees	Business growth should create greater opportunities for employees.
	Regulators	Seeks to mitigate financial risks arising from climate change.
	Communities	Focus on building 'sustainable communities' and managing the wider social, environmental and economic impacts of the Bank's operations.
Core Banking modernisation In 2019 the Board approved the plan to modernise the Bank's Core Banking system.	The Parent Group	Alignment with Parent Group IT modernisation programme.
	Customers	Opportunities to enhance customer experience.
	Regulators	Enhancements in respect of systems and controls and operational resilience.
Appointment of Managing Director The appointment of Robert Mulhall to succeed Brendan O'Connor as Managing Director was a key strategic decision considered by the Board during 2019.	The Parent Group	Robert was a member of the Parent Group Executive Committee and he has as a key objective the delivery of strategy and maximisation of shareholder value.
	Customers	In roles as: Managing Director of Retail; Commercial and Business Banking; and Managing Director of Consumer Banking at the Parent, Robert has demonstrated effective enhancement of customer experiences using digital technology as an enabler.
	Employees	Robert represents the Parent Group on the Irish Banking Culture Board and leads the Parent Group's culture evolution as Executive Committee sponsor.
	Regulators	The appointment is subject to approval by the PRA.
De-risking of the UK Scheme In 2019 the Bank supported the UK Scheme Trustees in effecting the purchase of two insurance policies, with the intention of reducing the risks associated with the UK Scheme.	The Parent Group	Maximisation of shareholder value by reducing the Bank's funding obligations in respect of the UK Scheme over time.
	Employees	Certainty for employees (past and present) who are members of the UK Scheme by ensuring the scheme is fully funded.

Risk management report

Introduction

Risk is inherent in the provision of financial services and AIB UK assumes a variety of risks in undertaking its business activities. Risk is defined as any event that could damage the core earnings capacity of the bank, increase cash flow volatility, reduce capital, threaten business reputation or viability and / or breach regulatory or legal obligations. Consequently, effective risk management is essential to AIB UK Group and is a key part of its overall strategy in achieving sustainable growth. Every employee is required to adopt a relevant risk management objective as part of the annual performance management process to acknowledge the risk responsibilities that are inherent in their role.

AIB UK's approach to identifying, assessing and managing risks is summarised in the 12 Risk Management Principles set out in the overarching Group Risk Management Framework.

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

Enhancements to the risk management approach in 2019 focussed on:

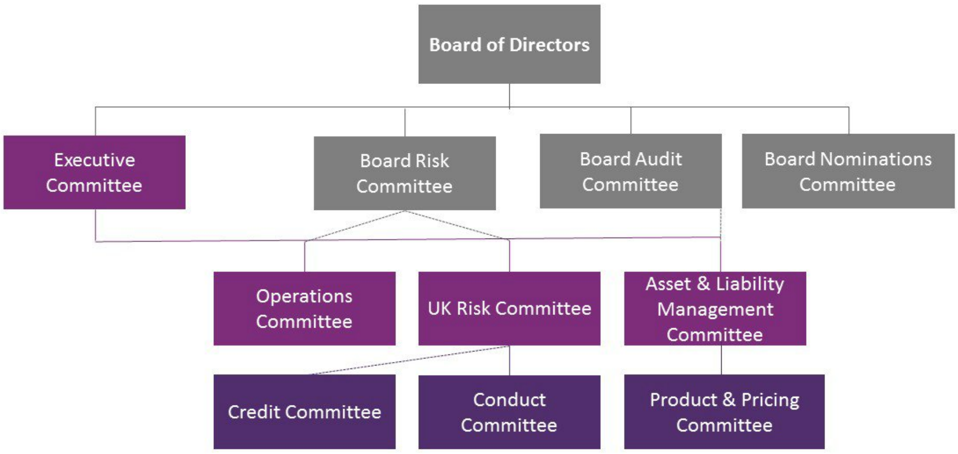
- Simplification of the risk framework and policy architecture to achieve closer alignment to the Bank's risk profile, and provide additional guidance on the application of the Risk Management Principles, as set out to the right;
- Clarification of the roles and responsibilities applicable to the Three Lines of Defence model, to further embed accountability in risk management activities and decision making; and
- Strengthening the linkage across key risk processes, ensuring material risks are measured and managed across the risk spectrum from business-as-usual (e.g. Risk Appetite and Strategic Planning) to stress scenarios (e.g. ICAAP and Recovery Planning) in order to support organisational preparedness against a backdrop of increasing political uncertainty and macro-economic pressures.

Risk management principles

1. The Board has ultimate responsibility for the governance of all risk taking activity in the Bank.
2. The Bank's Risk Appetite Statement defines the amount of risk that AIB UK is willing to accept or tolerate in order to deliver on its strategic and business objectives.
3. The Bank has adopted a three Lines of Defence model.
4. The Bank identifies, assesses and reports all its material risks.
5. Risk Management is embedded in the strategic planning, performance management and decision making process of the Bank.
6. The Bank develops and uses models across a range of risks and activities to inform key strategic business and financial processes.
7. The Bank understands, manages, measures, monitors and reports all risks it takes or originates
8. The Bank aims to provide clarity in all its communications which will help to better inform business decisions.
9. The Bank supports the delivery of a strong risk culture
10. Risk Management capabilities are valued, encouraged and developed
11. The Bank has a system of internal controls designed to mitigate rather than eliminate risk.
12. The Bank has implemented and embedded a comprehensive, fit-for-purpose framework and policy architecture.

Risk governance

The Board has ultimate responsibility for the governance of all risk taking activity in AIB UK. The Board has delegated a number of risk governance responsibilities to various committees. The activities of the Board and Board sub-committees are included in the Corporate Governance Report on pages 31 to 36.



UK Executive Committee (UK 'ExCo')
The UK ExCo is chaired by the UK Managing Director, and is responsible for managing strategic business risks. The Committee leads a single purpose-led organisation, where strategic and operational plans are fully aligned and consistent with the four strategic pillars; Customer First, Risk and Capital, Simple and Efficient and Talent and Culture. The committee executes the business strategy within which the risk management function operates.

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

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

UK Operations Committee ('UK OpCo')
The UK OpCo is chaired by the Chief Operating Officer and is responsible for AIB UK's operations from a strategic perspective. It oversees the control environment for IT and cyber security, ensuring adequate performance of suppliers, recommends processes and controls regarding data governance and oversees business continuity, safety and security.

UK Conduct Committee
The UK Conduct Committee is chaired by the Head of Products, Propositions & Customer Advocacy and is responsible for AIB UK's conduct risk management. It is responsible for overseeing AIB UK's Conduct Risk Framework and monitoring of AIB UK's product and propositions portfolio in terms of customer protection.

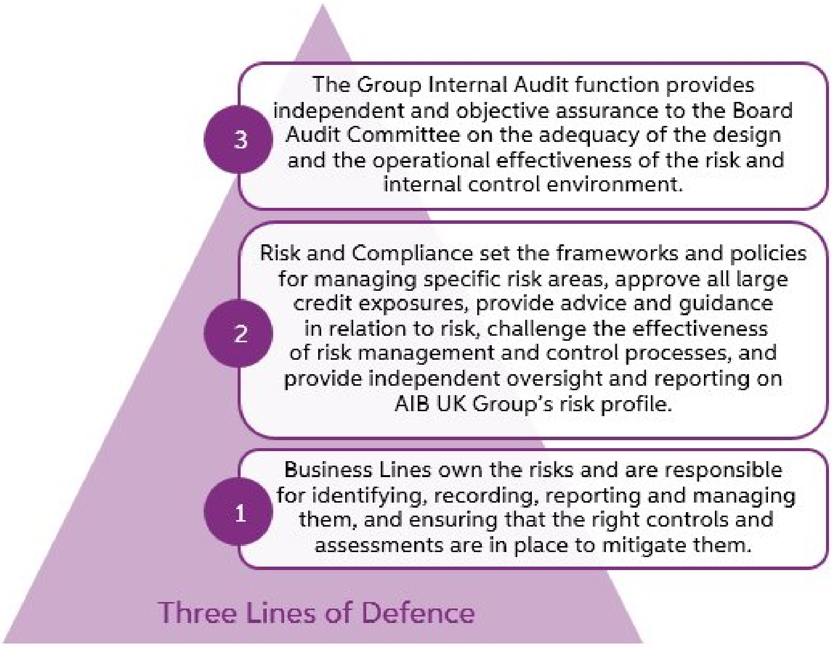
UK Product & Pricing Committee
The UK Product & Pricing Committee is chaired by the Head of Products, Propositions & Customer Advocacy and is responsible for governance and oversight of products, propositions and channels, and reviews and approves (where appropriate) the prices and pricing strategies for packaged products and transaction price points on a risk adjusted basis, driven by target Risk Adjusted Return on Capital ('RAROC') thresholds.

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

Three lines of defence

AIB UK has adopted a ‘three lines of defence’ ('3LOD') approach in the delineation of accountabilities for risk management activities.

The approach to the 3LOD continues to evolve and embed. Over the course of 2019 detailed principles, roles and responsibilities across the first and second lines of defence were developed. These are being applied across the business at a material risk level, to provide clarity regarding risk management accountabilities.



Risk appetite

AIB UK's Risk Appetite Statement ('RAS') defines the amount of risk that the Bank is willing to accept or tolerate in order to deliver on its strategic and business objectives. AIB UK’s RAS is an articulation of the tolerance and philosophy for risk taking which has been approved by the Board and is aligned to the Parent’s risk appetite. The RAS is expressed both qualitatively through statements about the nature and type of risk the Bank is willing to accept and quantitatively through limits and thresholds that define the range of acceptable risk, across all of the Bank's material risks. These are cascaded through the business in frameworks, policies, authorities and limits. This is a key mechanism to supporting the embedding of a strong risk culture and to foster responsible risk-taking and risk management behaviours throughout the organisation. Performance against risk appetite is reported to the Board on a monthly basis.

Risk assessment

The Bank identifies, assesses and reports all of its material risks. AIB UK undertakes a top-down Material Risk Assessment ('MRA') process on an annual basis to identify and assess the principle risks to which it is exposed in the context of achieving the approved strategy, and to ensure that threats are being appropriately managed and considered for capital purposes. The high level material risks identified as part of the MRA applicable during the reporting period are set over the following pages. As well as identifying material risks, the MRA is a key input into:

- The RAS, informing decisions around risk tolerance in pursuit of its business objectives;
- The Financial Plan, which details the financial objectives required to achieve the Business Strategy;
- A comprehensive framework and policy architecture, for managing and mitigating risk;
- Risk reporting, in the form of the monthly CRO's Report; and
- The ICAAP and Internal Liquidity Adequacy Assessment Process ('ILAAP') in determining how much capital and liquidity AIB UK should hold commensurate with its risk profile.

Bottom-up risk and control assessments are also undertaken regularly, and when there is a material change in organisation, process or environment, to ensure that all risks are identified, evaluated and controlled in a consistent manner. For some risks, such as compliance and operational risk, the bottom-up risk assessment may take the form of a Risk & Control Assessment ('RCA'). Other risks, such as credit and financial risk, lend themselves to a more quantitative risk measurement methodologies. The frequency and nature of the risk assessments may vary depending on the risk.

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

Strategic risk

The risk to the Bank's earnings as a result of not achieving the agreed strategy or approved business plan. This includes the risk of implementing an unsuitable strategy, or maintaining an obsolete business model in light of known internal and external factors.

Key Risk Indicator

5.6%

Return on Equity
2018: 6.1%

Status & Outlook

AIB UK has a strong performance of implementing strategic projects and achieving targets. External factors, however, including the uncertainty associated with Brexit, indications of slowing global macroeconomic growth and expected persistence of low interest rates could adversely affect the ability to maintain momentum. This could be compounded by the emerging risks associated with climate change.

The recent coronavirus outbreak (Covid-19) is an emerging risk that the Bank is monitoring closely. Should the outbreak impact on the economies or markets to which AIB UK or our customers are exposed, it could potentially impact on the Bank's performance.

The risk is assessed as Medium with a stable outlook.

Mitigation

- Strategic planning is supported by an integrated, risk-focussed approach to financial planning.
- The Parent has a group-wide Brexit Steering Committee, in which AIB UK participates, that coordinates and oversees the Bank's preparedness and provides regular status reports to the Board.
- AIB UK is developing a Climate Change Action Plan to ensure that the physical and transitional risks associated with climate change are considered in strategic planning and decision making.
- The Parent Group has established a monitoring group to assess the range of possible impacts and will continue to respond to the situation as it evolves. Any impact will depend on future developments, which are highly uncertain.

Credit risk

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

Key Risk Indicator

£691m

Migration from S1 to S2
2018: £269m

Status & Outlook

As a lending institution, Credit Risk is a significant risk for the Bank, which is heightened by Brexit uncertainty that led to lower business investment in 2019, deterioration in the macro economic environment, and high credit market liquidity.

Whilst the Bank's credit portfolio remains stable (default loans as a percentage of overall book were 3% in 2019, compared to 3% in 2018), and the lending portfolio is well spread by name, sector and geography within the UK, the macroeconomic headwinds and emerging risks relating to climate transition are being closely monitored.

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

Mitigation

- As part of the Credit Risk Framework, credit policies are in place that reflect the Bank's risk appetite. Credit assessment and underwriting standards ensure that risks are fully understood before they are taken onto the balance sheet. Customer performance is monitored and any deterioration is a trigger for customer engagement to ensure appropriate action is taken.
- UKRC monitors the risk profile of the credit portfolio to identify trends and provide oversight of the management of key risks within the lending portfolio.
- Detailed reports including sector specific and Brexit-related risks are considered regularly by the UK and the Board Risk Committees.

Financial risk

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

Key Risk Indicator

N/A

Status & Outlook

AIB UK does not retain material market risk on its balance sheet, although is sensitive from an earnings perspective to large interest rate movements.

The risk is assessed Medium with a stable outlook.

Mitigation

- The Market Risk Framework and related policies are in place to support the management of this risk, with UK market positions reviewed by the UK ALCo.

Liquidity & Funding risk

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

Key Risk Indicator

157%

Liquidity Coverage Ratio
2018: 177%

Status & Outlook

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

The risk is assessed as Medium / Low with stable outlook.

Mitigation

- AIB UK holds liquidity in excess of minimum regulatory requirements and carries out regular liquidity stress testing.
- The Liquidity Risk Framework and policies are supported by a Contingency Liquidity Plan, which would enable the Bank to manage and survive a liquidity stress situation.
- Bank funding is derived from various stable and sustainable funding channels, which improves the ability to withstand unexpected liquidity shocks.

Capital adequacy risk

The risk that the Bank breaches, or may breach, regulatory capital ratios.

Key Risk Indicator

17.6%

Total capital ratio
2018: 17.2%

Status & Outlook

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

Regulatory changes under consultation / consideration in relation to countercyclical capital buffer and MREL are under review.

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

Mitigation

- AIB UK is capitalised in excess of minimum regulatory requirements and carries out regular capital stress testing.
- The UK ALCo monitors the key drivers of the capital ratios to ensure that regulatory expectations are exceeded at all times.

Operational risk

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

Key Risk Indicator

Nil

Material System Outages in 2019

2018: Nil

Status & Outlook

This risks encompasses a broad range of sub-risks.

In line with all areas of industry, AIB UK is constantly facing hostile attempts to access the Bank's systems, however, to date has successfully defended against such attacks and there has been no significant customer impact or financial loss. Criminals and states continue to invest in innovative techniques in order to compromise global systems, raising threat of a direct or indirect attack on AIB UK Group or its suppliers that could lead to loss of information and / or system availability.

There is increased focus on operational resilience of IT systems critical to delivering customer services. The Bank's IT transformation programme is aimed at delivering improved resilience and agility.

Outsourcing to the Parent and external providers allows AIB UK to benefit from scale and expertise, but as a result exposes the Bank to third party management risk, with the impact of failure of any critical supplier being significant.

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

Mitigation

- The Operational Risk Management framework is supported by a comprehensive suite of policies and procedures, together with controls to test adherence.
- AIB UK has in place an ongoing systems and controls enhancement programme to implement continuous standard improvements and achieve greater efficiency and effectiveness of controls to strengthen the risk environment.
- Work continues on the WoW programme, which uses Lean principles to improve end to end processes and controls and enhance the customer experience.
- The Bank continues to invest significantly in its technology and cyber defences to improve its capabilities to protect and respond to cyber threats.
- The Bank assesses and monitors its dependence on outsource providers for the provision of its various systems and services on an ongoing basis.

Regulatory & Compliance risk

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

Key Risk Indicator

Nil

Material Regulatory Breaches in 2019

2018: Nil

Status & Outlook

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

The sophistication of fraud attempts continues to increase, however, industry initiatives will provide additional preventative measures. From an AMLD perspective, AIB UK has an overall medium / low risk profile considering the geographies in which it does business, the products / services it offers.

The risk is assessed as Medium with a stable outlook.

Mitigation

- AIB UK conducts ongoing horizon scanning to identify changes in regulatory and legal requirements.
- A Brexit contingency plan has been developed which identifies potential risks and has mitigants in place to address them. Status updates are provided regularly to the Board.
- A comprehensive suite of systems and controls is in place to support the frameworks and polices designed to identify and prevent potentially fraudulent activity, and prevent the Bank being used to further financial crime. Implementation of industry-wide Strong Customer Authentication, due to go live in early 2020, will provide additional protection to customers.

Conduct risk

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

Key Risk Indicator
1.26
Banking & Credit Card complaints per 1,000 accounts, H2 2019
H2 2018: 1.29

Status & Outlook

AIB UK offers a relatively simple product suite which minimises the risk of poor customer outcomes.

Identifying and meeting the needs of our vulnerable customers remains a key priority for the Bank.

The risk is assessed as Medium with a stable outlook.

Mitigation

- The Conduct Risk Framework outlines a set of principles that guides daily decisions with customers and colleagues.
- AIB UK has an established approval process in place for all new products or propositions, or changes to the characteristics of existing offerings, which identifies and assesses potential risks to ensure they are appropriately mitigated.

People & Culture risk

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

Key Risk Indicator
12:1
Engaged to actively disengaged employees
2018: 12:1

Status & Outlook

The ability of the Bank to deliver its strategy is dependent on the talents and efforts of skilled personnel. There remains strong competition for talent from both within and outside of the financial services industry, however, internal capability continues to be developed through focussed internal initiatives.

Work is ongoing to embed AIB UK's cultural ambition, with an emphasis on employee engagement. This was recognised when the Bank won the *Best Large Organisation for Business Culture* at the *2019/20 Business Culture Awards*, which was assessed on workplace culture and the business benefits achieved.

The risk is assessed as Medium with a stable outlook.

Mitigation

- AIB UK is committed to investing in the continued personal development of our people and senior leadership population to build organisational capability.
- Employee engagement is surveyed at least annually through group-wide surveys, which demonstrates positive trends over time, and against international benchmarks.
- The Bank has a clearly articulated corporate culture to enable a sustainable future for the Bank, our customers and our colleagues.

Model risk

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

Key Risk Indicator
N/A

Status & Outlook

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

The risk is assessed as Medium with a stable outlook.

Mitigation

- The Model Risk Framework and supporting Model Risk Policies ensures that this risk is managed throughout the model lifecycle, including independent validation and appropriate governance.
- Regular reports on model risk status are shared with the UK and the Board Risk Committees.

Corporate governance report

Corporate governance arrangements and practices

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

Our governance arrangements include:

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

The Company has adopted the AIB Group Subsidiary Governance Framework ('Framework') which covers the leadership, direction and control of AIB Group plc and its subsidiaries. This Framework reflects UK company law and EBA Guidelines and ensures that organisation and control arrangements are appropriate to the broader group's strategy.

Leadership and oversight

The Board
The Board is responsible for corporate governance encompassing leadership, direction and control of the Company and its subsidiaries and is accountable to the Parent for financial performance.

The Board:

- sets the Bank's risk appetite, incorporating risk limits, in consultation with the Parent;
- approves designated risk frameworks, incorporating risk strategies, policies, and principles in consultation with the Parent;
- approves specific stress testing and capital and liquidity plans under the Bank's ICAAP and ILAAP, in consultation with the Parent; and
- approves other high-level risk limits in consultation with the Parent as required by credit, capital, liquidity and market policies.

The various roles within the Board and the roles of the Executive Directors, ExCo and Company Secretary are set out below:

Chairman
Responsible for leading the Board and ensuring its effectiveness (includes setting the agenda, ensuring that the Directors receive accurate and timely information, facilitating effective contribution by the Non-Executives and ensuring proper induction and ongoing training for all).

Deputy Chairman/Senior Independent Director
Available to both shareholders and our colleagues if they have concerns which contact through the normal channels have failed to resolve, or where such contact is deemed to be inappropriate. The responsibilities of the Senior Independent Director ('SID') include SMR accountability for both Speak Up and the external whistleblowing hotline.

Independent Non-Executive Directors
Independent Non-Executive Directors represent a key layer of oversight of the activities of the Company, bringing a viewpoint to the deliberations of the Board that is objective and independent of the activities of the management and of the Company.

Executive Directors
Executive Directors have executive functions in the Company in addition to their Board duties. Their role is to propose strategies to the Board and, following Board challenge and scrutiny, to execute the agreed strategies to the highest possible standards.

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

Executive Committee
The most senior executive committee of the Bank accountable to the Managing Director. Subject to financial and risk limits set by the Board the ExCo, under the stewardship of the Managing Director, has responsibility for the day-to-day management of the Bank's operations.

Company Secretary
Responsible for advising the Board through the Chairman on all governance matters, ensuring that Board procedures are followed and that applicable rules and regulations are complied with. Facilitates information flows within the Board and its committees and between the ExCo and Non-Executive Directors, as well as facilitating induction and assisting with professional development as required.

Effectiveness

Independent professional advice
There is a procedure in place to enable the Directors to take independent professional advice, at the Bank's expense. The Parent holds insurance cover to protect Directors and Officers against liability arising from legal actions brought against them in the course of their duties.

Balance and independence
Responsibility has been delegated to the Nomination Committee for ensuring an appropriate balance of experience, skills and independence on the Board. Non-Executive Directors are appointed to provide strong and effective leadership and appropriate challenge to executive management. The independence of each Director is considered prior to appointment and reviewed annually thereafter. In reviewing independence the Committee considers the criteria contained in the UK Corporate Governance Code and the requirements of our regulators.

The Board has determined that the majority of Non-Executive Directors in office on 31 December 2019 were independent. Notwithstanding each of Jim O'Keeffe and Tom Foley's designations as non-independent, per the principles of the UK Corporate Governance Code, the Board is satisfied that they both exercise independence of thought and action in fulfilling their duties.

Terms of appointment and time commitment
The Company maintains clear records of the terms of service of the Chairman and Non-Executive Directors. Non-Executive Directors are appointed for a three year term, with the possibility of renewal for a further three years. Any term beyond six years is subject to annual review and approval by the Board.

Letters of appointment, as well as dealing with terms of appointment and appointees' responsibilities, stipulate the minimum time commitment required of Directors.

Conflicts of interest
The Board approved Code of Conduct and Conflicts of Interest Policy sets out how conflicts of interest are to be evaluated, reported and managed to ensure that Directors act at all times in the best interests of the Company and its stakeholders and in accordance with SMR. Executive Directors are also subject to the Group Code of Conduct and Conflicts of Interests Policy.

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

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

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

Induction, training and professional development

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

Management information pack

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

Board committees

The Board is assisted in the discharge of its duties by a number of committees, whose purpose it is to consider matters in greater depth than would be practicable at Board meetings. The composition of the committees is reviewed annually. Each committee operates under terms of reference approved by the Board. The minutes of all meetings of Board committees are circulated to all Directors, for information and are formally noted by the Board. In carrying out their duties, committees are entitled to take independent professional advice, at the Bank's expense, where deemed necessary or desirable.

Reports from the Board Audit Committee, the Board Risk Committee and the Nomination Committee are presented on the following pages. The duties that might otherwise be taken on by a Remuneration Committee are undertaken by the Board as a whole.

Board and committee meeting attendance

	Board	Audit Committee	Risk Committee	Nomination Committee
Number of meetings held	*10*	*8*	*8*	*6*
Chairman				
Peter Spratt*	10/10	-	8/8	6/6
Non-Executive Directors				
Bruce Robinson*	10/10	8/8	-	5/6
Graham Buckland*	9/10	-	8/8	6/6
Margaret Butler*	10/10	8/8	8/8	-
Tom Foley	9/10	-	-	-
Roger Perkin*	10/10	8/8	7/8	-
Shelley Malton*	10/10	-	-	3/3
Jim O'Keeffe (appointed 29 March 2019)	6/7	-	-	-
Mark Bourke *(resigned 27 February 2019)*	0/2	-	-	-
Executive Directors				
Rachel Lawrence	9/10	-	-	-
Brendan O'Connor	9/10	-	-	-

**Independent*

A total of 10 Board meetings were held during 2019 (2018: 9). The Non-Executive Directors also met on several occasions in the absence of the Executive Directors.

The Board is comprised of an Independent Non-Executive Chairman, 4 Independent Non-Executives, 2 Non-Executive Directors from AIB Group and 2 key Executive members from the Bank.

Board Audit Committee

8 meetings during 2019 (2018: 5)

Roger Perkin (Chair)
Bruce Robinson
Margaret Butler (until 31 December 2019)
Graham Buckland (from 31 December 2019)

Responsibilities

The committee is responsible for:

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

The committee has private sessions with the Head of Internal Audit and the external auditors at least annually.

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

Activities in 2019

During 2019 the committee:

- reviewed the Bank's annual financial statements prior to approval by the Board (including the Bank's accounting policies and practices; reports on compliance and effectiveness of internal controls);
- with input from the external auditor, satisfied itself that management's estimates, judgements and disclosures were appropriate and in compliance with financial reporting standards (a detailed analysis of the significant matters is provided in the critical accounting judgements and estimates);
- reviewed the scope of the external audit, and the findings, conclusions and recommendations of the external auditor;
- satisfied itself through regular reports from the Group Internal Audit function, the CFO, the CRO, the external auditor and the Head of Compliance and Financial Crime Prevention that the system of internal controls over financial reporting was effective. This includes management's assessment of IT controls and mitigation of IT risks, including conclusions from reviews by the Group Internal Audit function and the external auditor;
- received regular updates from the Group Internal Audit function; (including the designated UK Head of Internal Audit);
- received rolling updates from the CRO and the Head of Compliance and Financial Crime Prevention to satisfy itself that the Bank was in compliance with all regulatory and compliance obligations and considered key developments and emerging issues, the operation of the Speak Up process and key interactions with regulators;
- reviewed and approved the recovery and resolution plan;
- held formal confidential consultations with the external auditor and the Group Internal Audit function, in each case with only Non-Executive Directors present;
- oversaw the relationship with the external auditor. During the year, the committee considered the auditors' terms of engagement, their independence and objectivity and approved the audit plan (including methodology and risk identification processes); and
- considered the effectiveness and performance of the external auditor and the external audit process and concluded that it was satisfied with the external auditor's performance.

Board Risk Committee

8 meetings during 2019 (2018: 9)

Graham Buckland (Chair from 31 December 2019)
Margaret Butler (Chair until 31 December 2019)
Roger Perkin
Peter Spratt

Responsibilities

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

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

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

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

Activities in 2019

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

- reports from the CRO which provided an overview of risk profile and material risks including business, people, culture, cyber, liquidity and funding, capital adequacy, credit risk, operational risk, market risk, regulatory risk, business risk, conduct risk and related mitigants;
- Risk Appetite Statement;
- systems and controls;
- the funding and liquidity policy, strategy and related stress tests, and the Internal Liquidity Adequacy Assessment;
- risk frameworks and policies relating to credit, capital management, financial, market and conduct risks.
- capital and liquidity planning including consideration of the AIB UK Group ICAAP and ILAAP and related stress test scenarios;
- recovery planning and business continuity management;
- the efficacy of management oversight and control, including anti-money laundering and financial sanction policies, operational risk events and potential risks, credit risk performance and trends, operating model for material outsourcing and regulatory development;
- the Bank’s risk management infrastructure including actions taken to strengthen its risk management governance, people skills and system capabilities;
- Brexit impact updates; and,
- thematic reviews of business sectors.

Nomination Committee

6 meetings during 2019 (2018:5)

Peter Spratt (Chair)
Graham Buckland
Shelley Malton (from 26 June 2019)
Bruce Robinson

Responsibilities

The committee has oversight responsibility for:

- the composition, skills, experience, knowledge, independence, diversity and succession arrangements for the Board and for making recommendations to the Board with regard to any changes considered appropriate;
- identifying persons who, having regard to the criteria laid down by the Board, appear suitable for appointment to the Board, evaluating the suitability of such persons and making recommendations to the Board; and
- reviewing Board and Senior Executive succession planning.

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

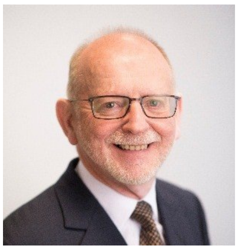
Activities in 2019

During 2019, in addition to its responsibility of ensuring the Bank has an effective Board and committees in place, the committee:

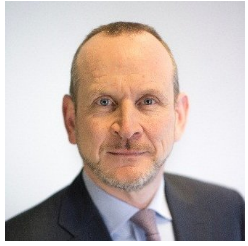
- oversaw the replacement of Mark Bourke by Jim O'Keeffe as a Non-Executive Director;
- identified the need for the appointment of two additional Non-Executive Directors to enable timely and effective succession planning at Board level;
- engaged Heidrick & Struggles as external consultants to assist with the search for said Non-Executive Directors;
- considered interim arrangements to replace Margaret Butler as Chair of the Risk Committee and member of the Audit Committee from 31 December 2019, until the appointment of a permanent replacement has been finalised; and
- approved the appointment of a new Managing Director, subject to regulatory approval.

The committee remains committed to encouraging diversity, whilst ensuring that the dynamics and skills set of the Board continues to meet the expectations of our stakeholders. In January 2017 the committee recommended and the Company adopted a Board Diversity policy and target with regard to gender representation that the percentage of females on the Board remains at or exceeds 25%. Throughout the year female representation on the Board was 33%, but at 31 December 2019 this fell to 22% following Margaret Butler's resignation from the Board.

Board of Directors

				
Peter Spratt	Sir Bruce Robinson	Graham Buckland	Tom Foley	Shelley Malton
Independent Non-Executive Chairman	Non-Executive Deputy Chairman and Senior Independent Director	Independent Non-Executive Director and Interim Chair of the Risk Committee	Non-Executive Director	Independent Non-Executive Director
Appointed to the Board				
March 2015 (Chairman - March 2016)	August 2013 (Deputy Chairman - December 2014)	March 2017	April 2014	December 2018
Key areas of expertise				
Finance, Audit, Business recovery and restructuring	Finance, Audit, Policy Development, Northern Ireland economy	Corporate Banking	Business Banking, Treasury, Finance, Audit, Risk, Strategy, Policy Development	Operations, customer experience, people leadership, technology, outsourcing
Skills and experience				
Peter was seconded to AIB plc from PricewaterhouseCoopers ('PwC') in 2011, acting as a member of AIB plc's executive team to establish and manage the Non-Core Unit. His responsibilities were expanded in 2012 to manage the newly created Financial Solutions Group. Peter then served as Interim Chief Executive Officer of AIB UK from January to June 2013. A Chartered Accountant, Peter joined PwC in 1983, becoming a Partner in 1992. Peter has extensive experience advising on the restructuring of medium and large companies and banks in multiple countries. Peter's roles in PwC included Global Leader of PwC's Business Recovery Services and Leader of BRS' Financial Services specialism. Peter retired from PwC in June 2015.	Before joining the Board, Bruce had a career in the Northern Ireland Public sector gaining top level executive experience and building close working relationships with political leaders at regional, national and international level. As Budget Director, Bruce led successful drives to improve financial management and budgetary control and implement shared services for the Northern Ireland Executive. A Chartered Accountant, Bruce began his career at Coopers & Lybrand. He has over 25 years' experience working with companies on the profitable development of their operations in Northern Ireland.	Graham joined Barclays in 1979 and held various roles in corporate banking before moving to the Investment Bank where he was Managing Director and Deputy Head of UK Corporate Finance and was also responsible for a portfolio of Financial Times Stock Exchange ('FTSE') 100 clients. Before his retirement from Barclays in 2016 he was a Managing Director in Corporate Banking where his roles included Head of London Region and where he had responsibility for corporate clients through seven sector specialist industry teams and also with responsibility for Barclays' large corporate clients in the UK.	Tom qualified as a Chartered Accountant with PricewaterhouseCoopers. He is a former Executive Director of KBC Bank Ireland and held a variety of senior management and board positions with KBC. During the financial crisis, Tom was a member of the Nyberg Commission of Investigation into the Banking Sector and the Irish Department of Finance Expert Group on Mortgage Arrears and Personal Debt.	Shelley is currently Director of Service, Operations & Digital at Vodafone. With over 25 years of experience in the financial services industry, she has led major transformations at both Experian and Barclays, including customer experience, outsourcing, automation and operations transformations. Previous roles include Managing Director for Service at Experian and Chief Operations and Technology Officer for Barclaycard Europe. Shelley holds an Associateship of the Chartered Institute of Bankers and is a Graduate of the Chartered Institute of Personnel and Development.
Key external appointments				
None	Board of the Irish American Partnership, Advisory Board of KPMG Northern Ireland	Look Ahead Care & Support (charity)	Intesa Sanpaolo Life Limited	Experian Limited



Jim O'Keeffe	Roger Perkin	Rachel Lawrence	Brendan O'Connor
Non-Executive Director	Independent Non-Executive Director and Chairman of Audit Committee	Executive Director and Chief Financial Officer	Executive Director and Managing Director
Appointed to the Board			
March 2019	March 2017	July 2017	October 2015
Key areas of expertise			
Marketing, Retail, Strategy and Customer Strategic Affairs	Finance, Audit, Banking Regulation and Risk	Banking start-ups, Finance, Strategy	Business & Corporate Banking, Risk Management, Strategy & People Leadership, Organisational & Business Transformation
Skills and experience			
Jim has worked across many aspects of Retail Banking including leadership roles in IT, Direct Channels, Mortgages and BZWBK (now Santander) in Poland. He was appointed Head of Financial Solutions Group in 2015 with responsibility for developing a strategy to support customers in financial difficulty, which resulted in a significant reduction in NPE's. Then Chief Customer and Strategic Affairs Officer from November 2018 to November 2019 when he was appointed as Managing Director of Retail Banking.	A Chartered Accountant by profession, Roger joined Arthur Young (subsequently Ernst & Young) in 1969, where he became a Partner in 1979 and remained in role until retirement in 2009. Roger previously held Board positions at Nationwide Building Society, Friends Life Holdings Ltd. and Evolution Group plc.	Rachel has considerable experience in finance and banking start-ups gained from a career spanning more than 20 years. She has held senior finance roles in Metro Bank, Shawbrook and Pearl Assurance. She joined the Bank in November 2016 from Shawbrook where she was Finance Director. She is a qualified chartered management accountant. Rachel also serves as a director of the Company's defined contribution pension scheme.	Brendan joined AIB plc in 1984 and has held a number of senior roles throughout the organisation both in New York and Dublin including Head of AIB Global Treasury Services, Head of Corporate Banking International and Head of AIB Business Banking. He joined AIB plc's Executive Leadership Team in February 2013 as Head of Financial Solutions Group prior to taking up his current role. A graduate of New York University, Brendan has a BA in Economics and an MBA from Johnson Graduate Business School at Cornell University, New York. Brendan will be stepping down as Executive and Managing Director of AIB UK in 2020.
Key external appointments			
IFG Securities Limited	TP ICAP plc and Hargreaves Lansdown plc	None	None

Directors' Report

We present the annual report and the audited financial statements for AIB Group (UK) p.l.c. and its subsidiaries for the year to 31 December 2019. A Directors' responsibility statement is shown on page 43.

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

Specifically, an indication of likely future developments is given in the Strategic report on pages 3 to 10, capital management on page 18, financial instruments in notes 37 and 38 on pages 133 to 140 and events after the reporting date in note 45, page 149.

Results

Our after tax profit for the year ended 31 December 2019 was £106m (2018: £111m) and was calculated as shown in the consolidated income statement on page 54.

Dividends

We did not pay a dividend during the year ended 31 December 2019 (2018: Nil).

Political donations

The Company did not make any political donations, give any money for political purposes, nor incur any political expenditure during the year (2018: Nil).

Research and development activities

The Company does not undertake formal research and development activities although it does invest in new platforms and products in each of its business lines in the ordinary course of business. Further details can be found in the Company's consolidated financial statements.

Stakeholder engagement

For further details on the Board's engagement with key stakeholders, and how these stakeholders' interests have influenced Board discussions and principal decisions, see pages 21 to 23 for the Company's Section 172 statement.

Foreign branches

The Company does not operate branches outside the UK.

Directors and Company Secretary

The composition of the Board, and the names of Directors as at 31 December 2019, is set out on pages 37 to 38. The following Board changes occurred, with effect from the dates shown:

- Mark Bourke resigned as a Director on 27 February 2019;
- Jim O'Keeffe was appointed as a Director on 29 March 2019 and resigned on 31 January 2020;
- Margaret Butler resigned as a Director on 31 December 2019;
- Paul Horner was appointed as a Director on 12 February 2020;
- Iain Hamilton resigned as the Company Secretary on 28 June 2019;
- Brian Kearns was appointed as the Company Secretary on 28 June 2019.

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

Independent advice

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

Corporate governance statement

The Company has in place its own governance arrangements which are deemed to be appropriate for a company of its size and nature. Further details on our governance arrangements can be found on page 31.

We consider the 2019 annual financial report to be fair, balanced and understandable and to give the necessary information to allow our shareholders to assess the Bank's performance, business models and strategy.

Going concern

We have considered whether a going concern basis for preparing the financial statements for the year ended 31 December 2019 is appropriate and decided that it is. The reasons for this decision are set out in the 'Going Concern' section of note 2.2 on pages 61 to 62.

Viability statement

We have considered the viability of AIB UK Group, taking into account the current position and the principal risks that it faces. We performed our assessment over the next three years given that it is the period covered by the rolling strategic plan. This plan is refreshed annually and is subject to stress testing which considers the impact of possible but extreme examples of the principal risks and uncertainties facing AIB UK Group, including a potential severe economic downturn as the result of Brexit. While appropriate actions are being taken to mitigate the risks that could potentially arise, there is still no clarity on what the eventual impact of Brexit will be and, therefore, it is not possible for us to predict the impact of all of the potential outcomes on AIB UK Group.

We have also considered the current financial performance, funding, liquidity and capital management of AIB UK Group, as set out in the Financial Review on pages 11 to 19, and the governance and oversight through which AIB UK manages and seeks where possible to reduce its risks as described on pages 24 to 26. Finally, we performed a detailed review of all principal risks facing AIB UK Group as part of the MRA process, including those that would threaten the business operations, governance and internal control systems. The details of this are on pages 27 to 30.

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

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

Internal controls

Board governance and controls

We are responsible for the Bank's system of internal controls and for reviewing its effectiveness. A strong system of internal controls contributes to safeguarding the Bank's assets. However, this system is designed to manage, rather than remove, the risk of failure to achieve business objectives and only provides reasonable and not complete protection against material mis-statement or loss.

Within the Bank, there is a detailed system of internal controls that includes:

- a clear management structure, with appropriate levels of responsibility, authority and accountability;
- annual planning, budgeting, business review and financial reporting, with clear control policies and procedures for all areas of the business, including those related to operational and credit risks;
- regular independent review and reporting to the ExCo and to the Board Audit and Risk Committees on the various parts of this control, through the Risk Management, Finance, Internal Audit and Compliance functions;
- a self-assessed risk identification process across all business units and an agreed sign-off process to certify compliance with internal control procedures; and
- following local laws and the regulations and guidelines set out by our regulators, the PRA and the FCA.

We receive reports that give us a view of the significant risks, including credit and operational risks and the effectiveness of our system of internal controls in managing these risks. We also receive independent reports from our Group Internal Audit function on the effectiveness of internal controls and look for confirmation from management that any significant control failings or weaknesses identified by the Group Internal Audit function or other reviews have been fixed.

Code of conduct

Our Code of conduct ('Code'), which covers all our colleagues, sets out the standard of behaviour expected from all employees, and guides management on how to make sure business and support activities are carried out to the highest standards of behaviour. This Code is supported by policies, practices and training which are designed to make sure that all our colleagues understand and follow it. The Code is reviewed annually.

The Code is also supported by our 'Speak Up' policy and whistleblowing arrangements which encourage our colleagues to raise any concerns of wrong-doing in a number of ways including a confidential external help-line. Colleagues are assured that if they raise a concern in good faith, we will not tolerate any victimisation or unfair treatment as a result.

Supervision and regulation

Supervision

The Bank is incorporated in Northern Ireland and is authorised by the PRA and regulated by the FCA and the PRA under the Financial Services and Markets Act 2000 ('FSMA') to carry on a wide range of regulated activities (including accepting deposits). We carry on business under the trading names 'Allied Irish Bank (GB)' and 'Allied Irish Bank (GB) Savings Direct' in Great Britain and 'AIB (NI)' in Northern Ireland (previously 'First Trust Bank' in Northern Ireland).

The Bank currently has the statutory power to issue bank notes as local currency in Northern Ireland (it does this under the name 'First Trust Bank'). In February 2019 the Bank announced its intention to cease doing so. FTB banknotes will remain legal currency until midnight on 30 June 2022. The Bank is also subject to the provisions of the Bank Charter Act 1844, the Bankers (Northern Ireland) Acts 1845 and 1928, the Currency and Bank Notes Act 1928, the Allied Irish Banks Act 1981, the Allied Irish Banks Act 1993 and the Allied Irish Banks Act 1996.

We subscribe to the Lending Code of the Lending Standards Board, which is a self-regulatory code setting minimum standards of good practice in relation to lending, including loans, credit cards and current account overdrafts. We seek to monitor actively our regulatory and compliance obligations and seek to put in place quickly appropriate steps for any regulatory change. We expect the level of regulatory change to remain high in 2020.

Legislative changes

We are subject to most of the significant changes to European Regulation, such as the Payment Services Directive 2 ('PSD2'), the Markets in Financial Instruments Directive ('MiFID II'), the 4th EU AMLD and the General Data Protection Regulation ('GDPR') and work closely with our parent to ensure the requirements are implemented in a way that follows UK regulatory guidance. In addition we have made significant changes to our processes to comply with the CMA Retail Banking Market Investigation Order 2017.

Regulatory changes to enhance competition

Following the CMA Retail Banking Market Investigation Order, we are one of nine banks charged with designing and implementing an Open Banking Framework for the UK. The first phase of this was launched in early 2018. PSD2 also introduces the concept of customers using trusted third party providers to access their on-line bank accounts and make payments on their behalf. This is all designed to open the banking market to competition particularly from the emerging Fintech sector.

Financial crime prevention

AMLD was introduced in the UK in June 2017. While maintaining the risk based approach to controls, the regulation is more specific on the steps banks need to take to prevent money laundering and terrorist financing. In September 2017 the UK implemented the Criminal Finances Act 2017 which includes further measures to combat money laundering and tax evasion.

Conduct risk

The Bank is exposed to many forms of conduct risk, and needs to be able to demonstrate how it delivers fair treatment and transparency to, and upholds the best interests of, customers. AIB UK may be subject to allegations of mis-selling of financial products, as a result of having sales practices or reward structures in place that were inappropriate, or allegations of overcharging and breach of contract or regulations. Such allegations may result in adverse regulatory action including significant fines or requirements to amend sales practices, withdraw products or provide restitution to affected customers, any or all of which could result in significant costs, may require provision, and could adversely impact future revenues.

Employee engagement

We have a dedicated internal communications function to ensure our colleagues have the information and support they need to contribute to achieving the Bank's vision and strategy. Our internal communications on financial and economic factors are transparent and deliver specific communications around our financial performance and results. They also address topical, macroeconomic events and how these might impact our performance.

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

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

Directors' indemnities

The Company has granted indemnities to each of its Directors and made qualifying third party indemnity provisions (as defined by Section 234 of the Companies Act 2006) for our Directors. These were in place at 31 December 2019.

Independent auditor and audit information

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

Each of the directors at the date of approval of this annual report confirm that:

- so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to make sure that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

On behalf of the Board:

Brendan O'Connor
Managing Director

2 March 2020

Directors' responsibility statement

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

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

Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under that law the Directors are required to prepare both the group and parent company financial statements in accordance with IFRSs as adopted by the EU and Article 4 of the International Accounting Standard Regulation ('IAS') and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group and parent company for that period. In preparing these financial statements, IAS 1 requires that Directors:

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's websites.

Responsibility statement
We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of AIB UK Group and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess AIB UK Group's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 2 March 2020 and is signed on its behalf by:

Brendan O'Connor
Managing Director

2 March 2020

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

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of AIB Group (UK) p.l.c. (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, which comprise:

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

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2. Basis for opinion

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

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

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

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

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Loan loss provisioning; • Appropriate measurement of the deferred tax asset; • Appropriate accounting treatment for the pension scheme buy-in; and • IT access management. Within this report, key audit matters are identified as follows:
	Newly identified
	Increased level of risk
	Similar level of risk
	Decreased level of risk
Materiality	The materiality that we used for the group financial statements was £9.6m which was determined on the basis of 0.55% of Shareholders' Equity.
Scoping	Our audit was scoped by obtaining an understanding of the group and its environment, key processes and controls over financial reporting, and assessing risks of material misstatement at a group level. The group and the parent company, its only material component, are treated by management as if it were a single aggregated set of financial information and was audited directly by the group engagement team.
Significant changes in our approach	The pensions scheme buy-in in the period, as set out in our key audit matters in section 5, resulted in a write down of c. £222m through OCI as the pension scheme asset value was written down to the value of the associated liabilities in accordance with IAS 19. Therefore, in order to determine materiality on a consistent basis to the prior year, excluding the impact of the pension scheme buy-in, we increased the basis of determining materiality to 0.55% of Shareholders' Equity (2018: 0.5%).

4. Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where: • the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or • the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.	We have nothing to report in respect of these matters.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified.

These matters included those, which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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

5.1 Loan loss provisioning

Key audit matter description	As detailed in the summary of critical accounting judgements and estimates in note 3 and the credit risk disclosures in note 19, the estimation of expected credit losses ("ECL") in accordance with IFRS 9 is inherently uncertain and requires significant management judgement. Therefore, we have determined that there is a risk of error in, or manipulation of, this balance. At 31 December 2019, the group reported £89m (2018: £118m) of ECL on total gross loans to customers of £7,194m (2018: £6,840m) The most significant judgements in respect of the ECL include: • the allocation of loans to customers to the appropriate Stage in accordance with the requirements of IFRS 9, in particular the identification of significant increases in credit risk ("SICR") for Corporate lending; • the valuation of collateral for Stage 1 and 2 Corporate exposures, specifically those which are individually material; and • the assumptions used within the ECL models, including the estimation of collateral values for Stage 3 Residential Mortgages. Management has also applied overlays where they believe that the model driven calculations do not appropriately reflect expected credit losses and this requires significant judgement. Therefore, these are also an area of audit focus.

How the scope of our audit responded to the key audit matter	We obtained an understanding and assessed the design effectiveness of the key controls over expected credit loss, focusing on governance over the expected credit loss control process, including: • controls that gave assurance over the identification of "criticised", "vulnerable" and credit-impaired loans and the valuation of collateral used in the individually assessed provision calculations; • the review and approval of model outputs and any overlays that were subsequently applied to the modelled provision; and • with the support of our internal modelling experts, we tested the assumptions, model methodology and underlying code for a sample of the group's ECL models. To test the data used in the models, we selected a sample of inputs to the models and reconciled them to supporting documentation. In addition, we performed the following substantive procedures in relation to the significant judgements: • we assessed a sample of Stage 1 loans for indicators of SICR. The triggers that formed part of our review included those from internal group policies and the non-exhaustive factors as set out in IFRS 9; • for a sample of individual loans, we verified the valuation, existence and rights of the collateral held; and • we performed an independent assessment over the 'loss given repossession' assumption, which is the key variable in the loss given default model for the residential mortgage population. This included a recalculation of the loss given repossession for the Stage 3 mortgage portfolio and testing of the collateral valuations used within this recalculation. Furthermore, we reviewed and challenged the rationale for and estimation of the management overlay in relation to a short-term, severe economic downturn through searching for and assessing both contradictory and corroborative evidence to determine whether the level of the overlay was appropriate.

Key observations	Based on the work performed, we are satisfied that management's approach is compliant with IFRS 9 and, whilst we observed both conservative and optimistic elements, we concluded that the loan loss provision is not materially misstated.

5.2 Appropriate measurement of the deferred tax asset

Key audit matter description	As detailed in the summary of critical accounting judgements and estimates in note 3 and the deferred tax disclosure in note 26, management have recognised a deferred tax asset ("DTA") of £87m (2018: £114m) as a result of significant unutilised tax losses suffered between 2009 and 2012. Given the inherent uncertainty in forecasting beyond the immediate future, particularly given the current economic uncertainty, significant management judgement is required to determine whether future taxable profits are probable ("more likely than not") in order to utilise the carried forward tax losses. Furthermore, as a result of changes to tax legislation in recent years, the level of profits that banks can offset each year against brought forward losses has been curtailed. As a result, the period over which management is required to assess future taxable profits has increased fourfold. Consequently, management have determined that fifteen years is a reasonable estimate of the foreseeable future and have restricted recognition to the amount projected over this period ("recognition period"). There is a risk of material misstatement that the group will not generate sufficient taxable profits to utilise the tax relief provided by the deferred tax asset. This is focused on two key judgements: • the ability to generate future profits through the continued growth of the profit generating assets (mainly the loan book); and • the appropriateness of the 15 year recognition period based on these profit projections.
How the scope of our audit responded to the key audit matter	We obtained an understanding of and assessed the key controls over the governance, review and production of the deferred tax asset calculation, including the projection of balance sheet (loan book) growth and taxable profits, and the determination of the recognition period. With consideration of the underlying economic assumptions, we assessed whether forecast profits were reasonable by challenging the underlying assumptions focusing on those assumptions which materially affect the profit figure (e.g. forecast net lending volumes and interest rates) with reference to historical performance, the planned strategy of the business and third party benchmarks. We assessed the evidence provided by management to support the fifteen year recoverable period, including an assessment of the historic accuracy of their forecasts.
Key observations	Based on our work on the deferred tax asset we concur with management's assessment that sufficient profits are more likely than not for the recoverable period and their determination of the fifteen year recognition period.

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

5.3 Appropriate accounting treatment for the pension buy-in

Key audit matter description	In December 2019, following Board approval, AIB Group (UK) p.l.c purchased a buy-in policy ("PBI") covering all current members of the AIB Group (UK) p.l.c defined benefit scheme (the "Scheme") which resulted in a write down of c. £222m through other comprehensive income as set out in Note 27. There is judgement required in relation to the appropriate accounting treatment for the transaction. A pension 'buy-in' arrangement is similar to a traditional non-participating annuity (a 'buy-out'), where a plan transfers future responsibility for some portion of promised employee retirement benefits to an insurance company. Under the buy-in arrangement, however, the benefit obligation is not transferred to the insurer. Instead, the employer retains ultimate responsibility for funding and the Scheme remains responsible for paying the benefits, but purchases a contract from the insurer which generates returns designed to equal all future designated contractual benefits payments to covered participants. As benefit payments are made by the plan, the insurer will make equal payments to the plan under the buy-in contract. The purchase of a traditional buy-out annuity contract triggers settlement accounting where the defined benefit obligation is derecognised at the point of settlement and any gains or losses incurred as part of this process are recorded in the income statement. Significant judgement is required in the assessment of the buy-in contract to determine that there are material steps between the buy-in and any possible future buy-out, such that settlement accounting is not triggered, the benefit obligation continues to be recognised, and losses are recognised in other comprehensive income.
How the scope of our audit responded to the key audit matter	In order to address the risk identified, we challenged management's assessment that the transaction does not meet the criteria for settlement accounting by performing an independent assessment. This included: • inspecting contracts between AIB Group (UK) p.l.c and the insurance provider for any obligation, including constructive obligations, to initiate a buy-out in the future; • inquiring of the external actuary regarding the accounting and tax advice provided for the transaction and assessing their competence and independence; and • working with our accounting, actuarial and tax specialists to provide advice on the accounting and tax implications of the transaction.
Key observations	Based on our work performed, we are satisfied that the steps required to initiate a buy-out at any point in the future are sufficient such that the transaction does not meet the criteria for settlement accounting and losses have been appropriately recognised in other comprehensive income.

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

5.4 IT access management

Key audit matter description	The Group's financial reporting processes are reliant on processes, controls and data managed by IT systems. In particular, the IT environment in relation to lending and payments is complex and pervasive to the operations of the Group due to the large volume of transactions processed daily and the reliance on automated and IT dependent manual controls. This risk is also impacted by dependency on third parties and outsourced arrangements as well as migration to new systems. Our planned audit approach relies extensively on the effective operation of controls over lending and payments systems. As part of our assessment of the IT environment we consider privileged user access management controls to be critical in ensuring that only appropriately authorised changes are made to relevant IT systems. Moreover, appropriate access controls contribute to mitigating the risk of potential fraud or error through changes to applications or underlying transaction data. As a result of continued focus, and increased audit effort, in relation to IT controls, we have identified this area as a key audit matter. Furthermore, through our testing, we identified a deficiency with user access controls in relation to a core lending and payment system resulting in an increased risk that unauthorised transactions had been processed.
How the scope of our audit responded to the key audit matter	We examined the design of the governance framework associated with the Group's IT architecture. We tested relevant General IT Controls for core lending and payments systems that we considered relevant to the financial reporting process, including access management, program development and change management. We gained an understanding of relevant IT controls over the applications, operating systems and databases, including those over the core lending and payments systems, and tested their operating effectiveness. We assessed automated controls within business processes and the reliability of relevant reports used as part of a manual control. This included assessing the integrity of system interfaces, the completeness and accuracy of data feeds and automated calculations. We tested user access by assessing the controls in place for in-scope applications and verifying the addition and removal of users. In regard to the deficiency identified, we tested the remediation activities performed by management and tested the operating effectiveness of compensating controls to mitigate the risk of unauthorised transactions.
Key observations	Based on the procedures performed, including those performed in response the deficiency identified, we were able to place reliance on IT controls in relation to core lending and payment systems.

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

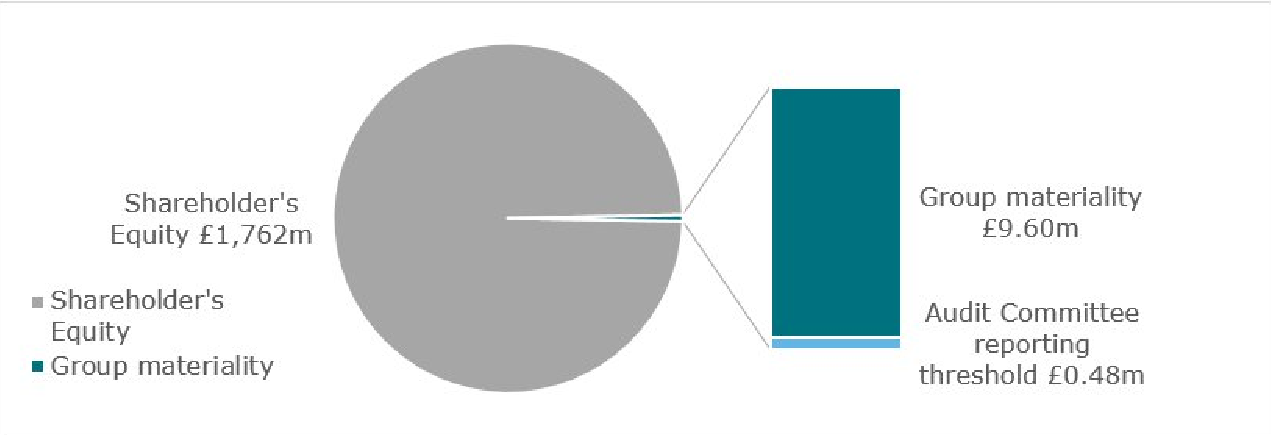
6. Our application of materiality

6.1 Materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£9.6m (2018: £9.2m)	£9.5m (2018: £9.1m)
Basis for determining materiality	0.55% of Shareholders' Equity as at 31 December 2019 (2018: 0.5%).	The parent company materiality equates to 3% of Shareholders' Equity (2018: 3%), capped it at 99% (2018: 99%) of group materiality.
Rationale for the benchmark applied	We recognise that profit is an important measure in the financial statements. However, due to inconsistent profitability in recent years, we believe that the Shareholders' Equity balance currently remains a more appropriate benchmark as: • it provides a stable basis for materiality; and • represents one of the principal benchmarks used by investors, regulators and other stakeholders	



6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of group materiality for the 2019 audit (2018: 70%). In determining performance materiality we considered our risk assessment, including our assessment of the group's overall control environment and that we consider it appropriate to rely on controls over a number of business processes.

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £480,000 (2018: £460,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

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

7. An overview of the scope of our audit

7.1 Identification and scoping of components

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

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

7.2 Working with other auditors

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

8. Other information

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

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

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

We have nothing to report in respect of these matters.

9. Responsibilities of directors

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

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

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

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

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

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

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

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1 Identifying and assessing potential risks related to irregularities

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

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

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

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the revevant provisions of the UK Companies Act, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the group's capital and liquidity regulatory requirements.

11.2 Audit response to risks identified

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

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

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

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

13.1 Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of this matter.

13.2 Directors' remuneration

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

We have nothing to report in respect of this matter.

14. Other matters

14.1 Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 5 July 2013 to audit the financial statements for the year ending 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 7 years, covering the years ending 31 December 2013 to 31 December 2019.

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

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

15. Use of our report

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

Ben Jackson, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom,
2 March 2020

Consolidated income statement
for the year ended 31 December 2019

	Notes	31 December 2019 £m	31 December 2018 £m
Interest income	4	**326**	288
Interest expense	5	**(77)**	(61)
Net interest income		**249**	227
Fee and commission income	6	**66**	64
Fee and commission expense	6	**(5)**	(5)
Net trading and other financial income	7	**4**	(2)
Net (loss)/gain on other financial assets measured at FVTPL	8	**(1)**	—
Other operating income	9	**15**	3
Other income		**79**	60
Total operating income		**328**	287
Administrative expenses	10	**(130)**	(141)
Impairment and amortisation of intangible assets	22	**(7)**	(2)
Impairment and depreciation of property, plant and equipment	23	**(6)**	2
Total operating expenses		**(143)**	(141)
Operating profit before impairment losses and provisions		**185**	146
Net credit impairment losses	18	**(20)**	(12)
Provisions for liabilities and commitments	32	**(1)**	(7)
Total impairment losses and provisions		**(21)**	**(19)**
Operating profit		**164**	**127**
Profit on disposal of property	23	**—**	2
Profit before taxation from continuing operations		**164**	129
Income tax charge from continuing operations	12	**(58)**	(18)
Profit for the period after taxation from continuing operations attributable to owners of the parent		**106**	**111**

All results are derived from continuing operations.

The notes on pages 61 to 149 form an integral part of these financial statements.

Statement of comprehensive income
for the year ended 31 December 2019

	Notes	AIB UK Group		AIB UK	
		2019	2018	**2019**	2018
		£m	£m	**£m**	£m
Profit for the year		106	111	107	106
Other comprehensive income - continuing operations					
Items that will not be reclassified subsequently to profit and loss:					
Net actuarial loss in retirement benefit schemes, net of tax	35	(185)	(15)	(185)	(15)
Total items that will not be reclassified subsequently to profit or loss		(185)	(15)	(185)	(15)
Items that will be reclassified subsequently to profit or loss when specific conditions are met:					
Net change in cash flow hedges, net of tax	35	13	(6)	13	(6)
Total items that will be reclassified subsequently to profit or loss when specific conditions are met:		13	(6)	13	(6)
Other comprehensive loss for the year, net of tax from continuing operations		(172)	(21)	(172)	(21)
Total comprehensive (loss)/income for the year, from continuing operations attributable to owners of AIB UK		(66)	90	(65)	85
Attributable to: Equity holders of AIB UK		(66)	90	(65)	85

The notes on pages 61 to 149 form an integral part of these financial statements.

Statement of financial position

as at 31 December 2019

	Notes	AIB UK Group 31 December 2019 £m	AIB UK Group 31 December 2018 £m	AIB UK 31 December 2019 £m	AIB UK 31 December 2018 £m
Assets					
Cash and balances at central banks		**3,328**	3,526	**3,328**	3,526
Items in course of collection		**5**	12	**5**	12
Derivative financial instruments	15	**122**	90	**122**	90
Loans and advances to banks	16	**726**	877	**725**	877
Loans and advances to customers	17	**7,105**	6,722	**7,107**	6,723
Investment securities	21	**32**	33	**32**	33
Investments in Group undertakings	24	**—**	—	**1**	—
Intangible assets	22	**34**	34	**34**	34
Property, plant and equipment	23	**45**	20	**45**	14
Other assets	25	**17**	88	**17**	88
Deferred tax assets	26	**61**	53	**61**	53
Prepayments and accrued income		**6**	6	**6**	6
Retirement benefit assets	27	**171**	408	**171**	408
Total assets		**11,652**	11,869	**11,654**	11,864
Liabilities					
Deposits by banks	28	**539**	613	**539**	605
Customer accounts	29	**8,893**	8,878	**8,921**	8,908
Lease liabilities	30	**25**	—	**25**	—
Derivative financial instruments	15	**108**	102	**108**	102
Current taxation	12	**11**	10	**11**	9
Deferred tax liabilities	26	**15**	33	**15**	33
Accruals and deferred income		**11**	12	**11**	12
Other liabilities	31	**222**	368	**219**	368
Provisions for liabilities and commitments	32	**20**	24	**17**	19
Senior non-preferred loan	33	**45**	—	**45**	—
Total liabilities		**9,889**	10,040	**9,911**	10,056
Shareholders' equity					
Share capital	34	**2,384**	2,384	**2,384**	2,384
Reserves		**15**	2	**14**	1
Retained earnings		**(636)**	(557)	**(655)**	(577)
Total shareholders' equity		**1,763**	1,829	**1,743**	1,808
Total liabilities and equity		**11,652**	11,869	11,654	11,864

The Company reported a profit for the financial year ended 31 December 2019 of £107m (2018: £106m).

The notes on pages 61 to 149 form an integral part of these financial statements.

Approved by the Directors on 2 March 2020.

Brendan O'Connor
Director
Company registration number: NI018800

Statement of cash flows
for the year ended 31 December 2019

	Notes	AIB UK Group 2019 £m	AIB UK Group 2018 £m	AIB UK 2019 £m	AIB UK 2018 £m
Cash flows from operating activities					
Profit before taxation		164	129	165	123
Adjustments for:					
Loss allowance on financial assets	18	18	19	18	19
Profit on disposal of property	23	—	(2)	—	(2)
Net loss on equity investments measured at FVTPL		1	—	1	—
Provision for liabilities and commitments	32	3	—	4	1
Depreciation, amortisation and impairment	23	13	—	13	3
Reversal of impairment in subsidiary		—	—	(1)	—
Retirement benefits-defined benefit income	27	(10)	(9)	(10)	(9)
Decrease/(increase) in prepayments and accrued income		—	(2)	—	(2)
Decrease in accruals and deferred income		(1)	(15)	(1)	(15)
(Profit) on disposal of loans and advances		(4)	—	(4)	—
Net cash inflow from operating activities		**184**	**120**	**185**	**118**
Net decrease/(increase) in loans and advances to banks		98	(88)	98	(88)
Net increase in loans and advances to customers		(399)	(252)	(399)	(253)
Net (decrease)/increase in deposits by banks		(31)	108	(23)	109
Net increase/(decrease) in customer accounts	29	15	(156)	13	(155)
Net decrease in derivative financial instruments	15	(6)	—	(6)	—
Net decrease in items in course of collection		7	26	7	26
Net decrease in notes in circulation	31	(99)	(15)	(99)	(15)
Net decrease in other assets		71	1	71	1
Net (decrease)/increase in other liabilities		(53)	13	(55)	14
Net cash outflow from operating assets and liabilities		**(397)**	**(363)**	**(393)**	**(361)**
Net cash outflow from operating activities before taxation		**(213)**	**(243)**	**(208)**	**(243)**
Taxation paid		(26)	(13)	(25)	(13)
Net cash outflow from operating activities		**(239)**	**(256)**	**(233)**	**(256)**
Net cash outflow from investing activities	41	**(9)**	**(10)**	**(15)**	**(10)**
Net proceeds - Senior non-preferred loan	33	45	—	45	—
Repayment of lease liabilities	23	(5)	—	(5)	—
Net cash inflow from financing activities		**40**	—	**40**	—
Decrease in cash and cash equivalents		**(208)**	**(266)**	**(208)**	**(266)**
Opening cash and cash equivalents		3,711	3,977	3,711	**3,977**
Closing cash and cash equivalents	40	**3,503**	**3,711**	**3,503**	**3,711**

The notes on pages 61 to 149 form an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2019

		Attributable to equity holders of AIB UK					
		Share capital	Other reserves	Cash flow hedging reserve	Available for sale reserve	Retained earnings	Total equity
AIB UK Group	Notes	£m	£m	£m	£m	£m	£m
At 1 January 2019		**2,384**	**2**	**—**	**—**	**(557)**	**1,829**
Profit for the year		**—**	**—**	**—**	**—**	**106**	**106**
Other comprehensive income, net of tax	**35**	**—**	**—**	**13**	**—**	**(185)**	**(172)**
Total comprehensive income		**—**	**—**	**13**	**—**	**(79)**	**(66)**
At 31 December 2019		**2,384**	**2**	**13**	**—**	**(636)**	**1,763**
At 31 December 2017		2,384	2	6	1	(633)	1,760
Impact of adopting IFRS 9 at 1 January 2018		—	—	—	(1)	(20)	(21)
Restated balance at 1 January 2018		2,384	2	6	—	(653)	1,739
Profit for the year		—	—	—	—	111	111
Other comprehensive income, net of tax	35	—	—	(6)	—	(15)	(21)
Total comprehensive income		—	—	(6)	—	96	90
At 31 December 2018		2,384	2	—	—	(557)	1,829

The notes on pages 61 to 149 form an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2019

		Attributable to equity holders of AIB UK					
AIB UK	Notes	**Share capital £m**	**Other reserves £m**	**Cash flow hedging reserve £m**	**Available for sale reserve £m**	**Retained earnings £m**	**Total equity £m**
At 1 January 2019		**2,384**	**1**	**—**	**—**	**(577)**	**1,808**
Profit for the year		**—**	**—**	**—**	**—**	**107**	**107**
Other comprehensive income, net of tax	35	**—**	**—**	**13**	**—**	**(185)**	**(172)**
Total other comprehensive income		**—**	**—**	**13**	**—**	**(78)**	**(65)**
At 31 December 2019		**2,384**	**1**	**13**	**—**	**(655)**	**1,743**
At 31 December 2017		2,384	1	6	1	(648)	1,744
Impact of adopting IFRS 9 at 1 January 2018		—	—	—	(1)	(20)	(21)
Restated balance at 1 January 2018		2,384	1	6	—	(668)	1,723
Profit for the year		—	—	—	—	106	106
Other comprehensive income, net of tax	35	—	—	(6)	—	(15)	(21)
Total other comprehensive income		—	—	(6)	—	91	85
At 31 December 2018		2,384	1	—	—	(577)	1,808

The notes on pages 61 to 149 form an integral part of these financial statements.

Notes to the financial statements

Notes to the financial statements

1. Reporting entity

AIB Group UK plc (company number NI018800) is a public company limited by shares incorporated in the United Kingdom with its registered office at 92 Ann Street, Belfast, BT1 3HH, Northern Ireland. The consolidated financial statements of AIB UK as at and for the year ended 31 December 2019 include AIB UK and its subsidiary undertakings, collectively referred to as 'AIB UK Group'. AIB UK Group provides banking and financial services to personal, commercial and corporate customers and has operations throughout the United Kingdom.

The Board of Directors approved these financial statements for issue on 2 March 2020.

Reference made to 'AIB plc' or the 'Parent', relate to Allied Irish Banks, p.l.c., a parent undertaking registered in the Republic of Ireland. From 8 December 2017, with the introduction of a new holding company above AIB plc, AIB Group plc became the ultimate parent company of AIB UK Group (see note 46). AIB Group plc is registered in the Republic of Ireland (registered number 594283) with its headquarters and registered office at AIB Bankcentre, Ballsbridge, Dublin 4, Republic of Ireland. Telephone +353(0) 16600311. Reference made to 'the Parent Group' relate to AIB plc and its subsidiary undertakings, which includes AIB UK Group.

2. Summary of significant accounting policies

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Accounting Standards (IASs) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and IFRSs as adopted by the EU and applicable for the year ended 31 December 2019. The accounting policies have been consistently applied by the AIB UK Group entities and are consistent with the previous year, unless otherwise described.

2.2 Basis of preparation

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

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

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

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

The judgements made in applying the significant accounting policies that have the most significant effect on the financial statements and the estimates with a significant risk of material adjustment in the next year are in the areas of expected credit losses on financial assets; the recoverability of deferred tax asset; and retirement benefit obligations. A description of these judgements and estimates is set out in note 3 on page 83.

Going Concern
The financial statements for the year ended 31 December 2019 have been prepared on a going concern basis as the Directors are satisfied, having considered the risks and uncertainties impacting AIB UK Group, that it has the ability to continue in business for the period of assessment. The period of assessment used by the Directors is twelve months from the date of approval of these annual financial statements.

Notes to the financial statements

This assessment is made on the basis of a formal commitment from AIB plc to support the funding and capital needs of AIB UK Group for a period of at least twelve months from the date these financial statements are approved by the Directors. In making its assessment, the Directors have considered a wide range of information relating to present and future conditions. These have included business and financial plans covering the period 2020 to 2022 approved by the Board in January 2020, liquidity and funding forecasts, and capital resources projections, all of which have been prepared under base and stress scenarios. In formulating these plans the Directors have considered the current UK economic environment, and forecasts for growth and employment, as well as the outlook for the Irish and Eurozone economies, and the factors and uncertainties impacting their performance.

The Directors have also considered the principal risks and uncertainties, as part of the MRA process including Brexit, which could materially affect AIB UK Group's future business performance and profitability and which are outlined on pages 24 to 30. The UK's exit from the EU could lead to a deterioration in market and economic conditions in the UK and Ireland, which could adversely affect AIB UK Group's business, financial condition, results of operations and prospects. Although the overall impact of the UK's withdrawal from the EU remains uncertain, it is expected to have a negative effect on UK Gross Domestic Product ('GDP') growth over the medium term, with the UK's future trading relationship with the EU post-Brexit being the key consideration in determining the extent of such deterioration. The legal and regulatory position of AIB UK Group's operations may be impacted from changes in legal or regulatory rules as a result of the UK's departure from the EU. Depending on the nature of such changes, the UK exiting the EU could have a material adverse effect on AIB UK Group's business, financial condition, results of operations and prospects.

The Directors believe that AIB UK Group's capital resources are sufficient to ensure that the Company is adequately capitalised both in a base and stress scenario. The Company's regulatory capital resources are outlined on page 18.

AIB UK Group's liquidity is outlined on page 19. The Directors are satisfied, based on the Parent's position in the Irish market place and the successful IPO in 2017, that in all reasonably foreseeable circumstances the required liquidity and funding from the Central Bank of Ireland (CBI)/ ECB will be available to the Parent during the period of assessment.

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

Adoption of new accounting standards

Transition to IFRS 16
(a) Summary
On 1 January 2019, AIB UK Group implemented the requirements of IFRS 16 *Leases*, a new accounting standard which replaced IAS 17 *Leases*. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Under IFRS 16, a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained.

The information set out below provides details relevant to understanding the impact of IFRS 16 on AIB UK Group's financial position at 1 January 2019.

(b) Principal impacts of IFRS 16
AIB UK Group transitioned to IFRS 16 in accordance with the modified retrospective approach, and accordingly, the comparative financial information presented for 2018 has not been restated as permitted in IFRS 16 [par: C7]. It remains as previously reported under IAS 17 and related interpretations. Accordingly, accounting policy Leases as set out in the Annual Financial Report 2018 note 2.14 applies for comparative information.

For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases immediately before the date of initial application is reclassified to right-of-use (ROU) assets and lease liabilities respectively without any adjustments. Any difference arising between IAS 17 carrying amounts and IFRS 16 carrying amounts at 1 January 2019 are recognised in opening retained earnings at 1 January 2019.

The total impact of IFRS 16 over the life of a lease will be neutral on the income statement, however, its implementation will result in a higher charge in the earlier years following implementation with a lower charge in later years.

As a lessee
On initial application of IFRS 16 for operating leases, right-of-use assets were measured at the amount of the lease liability, using AIB UK Group's incremental borrowing rate at the time of initial application. The weighted average rate applied was c. 3.0%. For the measurement of the right-of-use assets at the date of initial application, initial direct costs were not taken into account in accordance with IFRS 16 C10 (d).

AIB UK Group elected to apply the practical expedient that allows a single discount rate to be applied to a portfolio of leases with reasonably similar characteristics and a similar remaining lease term. AIB UK Group applied a single discount rate to its leases of ATM locations.

AIB UK Group also elected to apply the practical expedient where the lease term ends within 12 months of the date of initial application to account for such leases as short-term leases with the associated lease payments being recognised as an expense for short-term leases.

In addition, AIB UK Group elected to apply the practical expedient that allows an entity to rely on its assessment of whether leases were onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application as an alternative to performing an impairment review.

Contracts that qualified as leases as defined by IFRS 16 related primarily to property and ATM locations. On initial application of IFRS 16, AIB UK Group recognised assets and liabilities for its leases previously classified as operating leases under IAS 17, resulting in an increase in total assets under property, plant and equipment and total liabilities at 1 January 2019. On transition to IFRS 16, the principal impacts were the recognition of right-of-use assets of £29m (note 23), including £1m for future dilapidation provisions (note 32), the recognition of lease liabilities of £30m (note 30) and a reduction in onerous contracts provision of £1m (note 32). The impact on retained earnings was nil.

Comparative data in these financial statements has been prepared under IAS 17 *Leases* as allowed in IFRS 16.

As a lessor
AIB UK Group was not required to make any adjustment on transition to IFRS 16 for leases where it is a lessor.

At the date of initial application, AIB UK Group reassessed subleases that were classified as operating leases under IAS 17 to determine whether these should be reclassified under IFRS 16. AIB UK Group concluded that there are no subleases in existence that require classification as finance leases under IFRS 16.

(c) Reconciliation of operating lease obligations
The following tables reconciles AIB UK Group and AIB UK operating lease obligations at 31 December 2018, as previously disclosed in the consolidated financial statements, to the lease obligations recognised on initial application of IFRS 16 at 1 January 2019:

	AIB UK Group	AIB UK
		£m
Operating lease commitments at 31 December 2018	24	28
Extension options reasonably certain to be exercised – gross	9	9
Discounting effect – using the incremental borrowing rate at 1 January 2019	(3)	(3)
Recognition exemption for short-term/other	—	(4)
Lease obligations recognised at 1 January 2019	30	30

Details of AIB UK Group's accounting policies for leases following the implementation of IFRS 16 have been discussed within the leasing accounting policy set out in note 2.13 to these financial statements.

2.3 Basis of consolidation

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

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

Notes to the financial statements

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

AIB UK Group reassesses whether it controls a subsidiary when facts and circumstances indicate that there are changes to one or more elements of control. See note 24 for list of subsidiaries within AIB UK Group.

2.4 Foreign currency translation

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

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

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

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

2.5 Interest income and expense recognition

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

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

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. The application of the method has the effect of recognising income receivable and expense payable on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

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

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

Interest income and expense presented in the consolidated income statement includes:

- Interest on financial assets and financial liabilities at amortised cost on an effective interest method;
- Interest on investment securities on an effective interest method;
- Net interest income and expense on qualifying hedge derivatives designated as cash flow hedges or fair value hedges which are recognised in interest income or interest expense; and
- Interest income excluding dividends on equity shares.

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

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

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

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

However, for financial assets that were credit impaired on initial recognition, Purchased or Originated Credit Impaired ('POCI') see note 2.18, 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, has been repaid in full, or cured without financial loss, AIB UK Group presents previously unrecognised interest income as a reversal of credit impairment/recovery of amounts previously written off.

2.6 Dividend income

Dividend income on equity investments measured at FVTPL are recognised in the income statement when AIB UK Group's right to receive payment is established. Usually this is the ex-dividend date for equity securities.

2.7 Fee and commission income

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

The principles in IFRS 15 are applied using the following 5 step model:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognise revenue when or as AIB UK Group satisfies its performance obligations.

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

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

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

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

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

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

2.8 Net trading income

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

2.9 Employee benefits

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

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

Scheme assets are measured at fair value. For investments and the Assured Payment Policy ('APP') insurance policy, fair value is determined by using current bid prices. For the Pensioner Buy-In ('PBI') insurance policy, the fair value is determined by the present value of the related obligation as the policy is a qualifying policy under IAS 19 since the timing and amount of payments under the policy exactly match some or all of the benefits payable under the scheme. Assets ring-fenced within a pension funding partnership, as part of an asset backed funding arrangement established for the AIB UK defined benefit scheme in December 2013, form part of the reported scheme assets. These assets are measured at fair value based on a deterministic model valuation provided by investment consultants.

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

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

Changes with regard to benefits payable to retirees which represent a constructive obligation under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, are accounted for as a negative past service cost. These are recognised in the income statement.

The cost of providing the defined benefit pension scheme to employees, comprising the net interest on the net defined benefit liability/(asset), calculated by applying the discount rate to the net defined benefit liability/(asset) at the start of the annual reporting period, taking into account contributions and benefit payments during the period, is charged to the income statement within personnel expenses. Remeasurements of the net defined benefit liability/(asset), comprising actuarial gains and losses and the return on scheme assets, excluding amounts included in net interest on the net defined benefit liability/(asset) are recognised in other comprehensive income. Amounts recognised in other comprehensive income in relation to remeasurements of the net defined benefit liability/(asset) will not be reclassified to profit or loss in a subsequent period.

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

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

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

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

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

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

2.10 Income tax, including deferred income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income. Income tax relating to items in equity is recognised directly in equity.

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

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

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

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

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

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

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

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

2.11 Financial assets

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

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

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

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

The assessment considers the following:

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

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

Characteristics of the contractual cash flows

An assessment ('SPPI test') 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, and for other basic lending risks and costs (i.e. liquidity, administrative costs), and profit margin.

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

- Features that modify the time value of money element of interest (e.g. tenor of the interest rate does not correspond with the frequency within which it resets);
- Terms providing for prepayment and extension;
- Leverage features;
- Contingent events that could change the amount and timing of cash flows;
- Terms that limit AIB UK Group's claim to cash flows from specified assets; and
- Contractually linked instruments.

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

Classification and subsequent measurement

On initial recognition, a financial asset is classified and subsequently measured at amortised cost, FVOCI or FVTPL.
The classification and subsequent measurement of financial assets depend on:

- AIB UK Group's business model for managing the asset; and
- The cash flow characteristics of the asset (for assets in a 'hold-to-collect' or 'hold-to-collect-and-sell' business model).

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

Fair value through profit or loss

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

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

Amortised cost

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

Amounts due from subsidiary undertakings are assessed for ECL at each reporting date. Intercompany balances are repayable on demand and non-interest bearing and therefore do not have a significant IFRS 9 impact.

Notes to the financial statements

Fair value through other comprehensive income
Assets that have not been designated as at FVTPL, and are held within a 'hold-to-collect-and-sell' business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and whose contractual terms give rise on specified dates to cash flows that are 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.

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

2.12 Financial liabilities

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

AIB UK Group categorises financial liabilities as at amortised cost or as at fair value through profit or loss.

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

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

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

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

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

2.13 Leases

The effective date for IFRS 16 was 1 January 2019 and was adopted by AIB UK Group on that date.

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

Assets leased to customers are classified as operating leases if the lease agreements do not transfer substantially all the risks and rewards of ownership.

The leased assets are included within property, plant and equipment on the statement of financial position and depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful lives. Lease income is recognised on a straight line basis over the period of the lease unless another systematic basis is more appropriate.

Lessee
Leases are recognised, measured and presented in line with IFRS 16 *Leases*.

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

This policy is applied to all of its contracts that meet the definition of a lease.

AIB UK Group has elected to apply the practical expedient to account for each lease component and any non-lease component as a single lease component.

Lease term
The lease term comprises the non-cancellable period of the lease contract for which AIB UK Group has the right to use an underlying asset together with:
- periods covered by an option to extend the lease if AIB UK Group is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if AIB UK Group is reasonably certain not to exercise that option.

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

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

AIB UK Group provides for dilapidations/restoration costs where it has been identified or planned that it intends on exiting the premises, and/or where it has completed extensive modifications. AIB UK Group recognises asset restoration obligations mainly in relation to leased head office locations and branches and any other space which would need to be restored to their previous condition when the lease ends. Asset restoration obligations are capitalised as part of the cost of right-of-use assets and depreciated over the asset's estimated useful life on a straight-line basis.

Subsequent measurement of right-of-use asset
After the commencement date, a right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any re-measurement of the lease liability. AIB UK Group applies IAS 36 *Impairment of Assets* as set out in accounting policy 2.23 'Impairment of property, plant and equipment and intangible assets' to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

AIB UK Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset and the end of the lease term on a straight-line basis. When determining the relevant time period to calculate depreciation, AIB UK Group uses the lease term as determined in the initial recognition calculation.

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

Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by AIB UK Group under a residual value guarantee;
- the exercise price of a purchase option if AIB UK Group is reasonably certain to exercise;
- lease payments in an optional renewal period if AIB UK Group is reasonably certain to exercise an extension option; and
- payments of penalties for terminating the lease, if the lease term reflects AIB UK Group exercising an option to terminate the lease.

Lease payments exclude variable elements which are dependent on external factors, e.g. payments that are based on transaction volume/usage. Variable lease payments that are not included in the initial measurement of the lease liability are recognised directly in the income statement.

VAT payments are not included in the calculation of the lease liability. These are expensed to the income statement when incurred and are included within 'General and administrative expenses'.

Where a lease agreement contains a clause to restore the asset to a specified condition i.e. restoration/dilapidation costs, AIB UK Group recognises a provision for a restoration costs under IAS 37 in its statement of financial position under 'Provisions for liabilities and commitments'.

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

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

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

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

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

If a lease modification fails the test above or the modification is of any other type (e.g. a decrease in scope from the original contract), AIB UK Group must modify the initially recognised components of the lease contract.

The accounting treatment required for lease modifications that are not accounted for as separate leases is as follows:

Decrease in scope:
(a) Remeasure lease liability using revised discount rate*;
(b) Decrease right-of-use asset by its relative scope compared to the original lease; and
(c) Difference between (a) and (b) recognised as gain or loss in the income statement in 'Profit on disposal of leases'.

All other lease modifications:
(a) Remeasure lease liability using the revised discount rate*; and
(b) Remeasure right-of-use asset by same amount.
* The interest rate implicit in the lease for the remainder of the lease term is used. If this cannot be readily determined, the incremental borrowing rate at the effective date of the modification is used.

Notes to the financial statements

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

Statement of financial position
AIB UK Group presents right-of-use assets in 'Property, plant and equipment' and lease liabilities as a separate line item in the statement of financial position.

Practical expedients
AIB UK Group has elected to apply the practical expedient not to recognise right-of-use assets and lease liabilities for short-term leases i.e. leases that have a lease term of 12 months or less and for leases of low-value assets (i.e. leases where the value of the underlying asset when new is less than £5,000). The lease payments associated with these leases are recognised as an expense on a straight-line basis over the lease term. The election to adopt the recognition exemption for short-term leases is made by class of underlying asset to which the right of use relates.

AIB UK Group has elected to apply the practical expedient, as allowed by IFRS 16, to apply the Standard to a portfolio of leases with similar characteristics when it expects that the effects on the financial statements of applying the Standard to the portfolio would not differ materially from applying this Standard to the individual leases within the portfolio. AIB UK Group has applied the portfolio approach to its leases of the spaces in which its offsite ATMs are located. On this basis, AIB UK Group has made estimates and assumptions that reflect the size and composition of the portfolio.

2.14 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 AIB UK Group has access at that date. AIB UK Group considers the impact of non-performance risk when valuing its financial liabilities.

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

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

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

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

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

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

Notes to the financial statements

Valuation techniques
In the absence of quoted market prices, and in the case of over-the-counter derivatives, fair value is calculated using valuation techniques. Fair value may be estimated using quoted market prices for similar instruments, adjusted for differences between the quoted instrument and the instrument being valued. Where the fair value is calculated using discounted cash flow analysis, the methodology is to use, to the extent possible, market data that is either directly observable or is implied from instrument prices, such as interest rate yield curves, equities and commodities prices, credit spreads, option volatilities and currency rates. In addition, AIB UK Group considers the impact of own credit risk and counterparty risk when valuing its derivative liabilities. The valuation methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. The assumptions involved in these valuation techniques include:

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

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

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

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

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

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

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

2.15 Sale and repurchase agreements (including stock borrowing and lending)

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

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

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

2.16 Derivatives and hedge accounting

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

Notes to the financial statements

AIB UK Group maintains trading positions in a variety of financial instruments including derivatives. Trading transactions arise as a result of activity generated by customers and include offsetting contracts with the Parent to ensure there is no market risk in the trading book. Non-trading derivative transactions comprise transactions held for hedging purposes as part of AIB UK Group's risk management strategy against assets, liabilities, positions and cash flows.

Derivatives

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

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

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

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

Hedging

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

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

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

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

AIB UK Group discontinues hedge accounting when:

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

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

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

Fair value hedge accounting

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

Notes to the financial statements

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

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

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

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.

2.17 Derecognition

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

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

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

In transactions in which AIB UK Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the AIB UK Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the AIB UK Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate or is less than adequate for performing the servicing.

The write-off of a financial asset constitutes a derecognition event. Where a financial asset is partially written off, and the portion written off comprises specifically identified cash flows, this will constitute a derecognition event for that part written off.

Financial liabilities
AIB UK Group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

2.18 Impairment of financial assets

AIB UK Group recognises loss allowances for ECLs at each balance sheet date for the following financial instruments that are not measured at FVTPL:
- Financial assets at amortised cost;
- Financial assets at FVOCI (except for equity instruments);
- Financial guarantee contracts issued; and
- Loan commitments issued.

Investments in equity instruments are recognised at fair value, accordingly, expected credit losses are not recognised separately for equity instruments.

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

When measuring ECLs, AIB UK Group takes into account:

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

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

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

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

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

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

A financial asset can only originate in either Stage 1 or a POCI. 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 is reflected in AIB UK Group's loss given default models ('LGD').

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

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

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

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

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

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

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

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

Where renegotiation of the terms of a financial asset leads to a customer granting equity to AIB UK Group in exchange for any loan balance outstanding, the new instrument is recognised at fair value with any difference to the loan carrying amount recognised in the income statement.

Derecognition occurs if a modification or restructure is substantial on a qualitative or quantitative basis. 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 and the credit risk is therefore reset. DFAs are allocated to Stage 1 on origination and follow the normal staging process, thereafter. AIB UK Group does not have any DFAs.

If there is evidence of credit impairment at the time of initial recognition of a DFA, and the fair value at recognition is at a discount to the contractual amount of the obligation, the asset is deemed to be a POCI. POCIs are not allocated to stages but are assigned a lifetime probability of default ('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 which are credit impaired, AIB UK Group may repossess collateral previously pledged as security to achieve an orderly realisation of the loan. AIB UK Group will then offer this repossessed collateral for sale. However, if AIB UK Group believes the proceeds of the sale will comprise only part of the recoverable amount of the loan with the customer remaining liable for any outstanding balance, the loan continues to be recognised and the repossessed asset is not recognised. However, if AIB UK Group believes that the sale proceeds of the asset will comprise all or substantially all of the recoverable amount of the loan, the loan is derecognised and the acquired asset is accounted for in accordance with the applicable accounting standard. Any further impairment of the repossessed asset is treated as an impairment of that asset and not as a credit impairment of the original loan.

Financial assets at FVOCI
ECL allowances for financial assets measured at FVOCI do not reduce the carrying amount in the statement of financial position because the carrying amount of these assets is fair value. However, an amount equal to the ECL allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated credit impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit or loss upon derecognition of the assets (together with other accumulated gains and losses in OCI).

Write-offs and debt forgiveness
AIB UK Group reduces the gross carrying amount of a financial asset either partially or fully when there is no reasonable expectation of recovery.

Where there is no formal debt forgiveness agreed with the customer, AIB UK Group may write off a loan either partially or fully when there is no reasonable expectation of recovery. This is considered a non-contracted write-off. In this case, the borrower remains fully liable for the credit obligation and is not advised of the write-off.

Once a financial asset is written off either partially or fully, the amount written off cannot subsequently be recognised on the balance sheet. It is only when cash is received in relation to the amount written off that income is recognised in the income statement as a 'recovery of bad debt previously written off. Debt forgiveness arises where there is a formal contract agreed with the customer for the write-off of a loan.

2.19 Collateral and netting

Collateral
AIB UK Group obtains collateral in respect of customer receivables where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives AIB UK Group a claim on these assets for both existing and future customer liabilities. The collateral is, in general, not recorded on the statement of financial position.
AIB UK Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts and derivative contracts to reduce credit risk.

Collateral pledged in the form of securities is not recorded on the statement of financial position. Collateral pledged in the form of cash is recorded on the statement of financial position with a corresponding liability.

Therefore, in the case of cash collateral, these amounts are assigned to deposits received from banks or other counterparties. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

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

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

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

2.20 Financial guarantees and loan commitment contracts

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

A loan commitment is a contract with a borrower to provide a loan or credit on specified terms at a future date. The contract may or may not be cancelled unconditionally at any time without notice depending on the terms of the contract.
Financial guarantees and loan commitment contracts are initially recognised in the financial statements at fair value on the date that the guarantee or loan commitment is given.

Subsequent to initial recognition, AIB UK Group applies the impairment methodology of IFRS 9 and calculates an ECL allowance for financial guarantees and loan commitment contracts which are not measured at FVTPL.

The origination date for such contracts is the date when the contracts become irrevocable. The credit risk at this date is used to determine if a significant increase in credit risk has subsequently occurred.

The ECL allowance calculated on financial guarantees and loan commitment contracts is reported within IAS 37 Provisions for liabilities and commitments.

2.21 Property, plant and equipment

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

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

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

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

AIB UK Group depreciates right-of-use assets arising under lease obligations from the commencement date of a lease to the earlier of the end of the useful life of the right-of-use asset and the end of the lease term on a straight-line basis. When determining the relevant time period to calculate depreciation, AIB UK Group uses the lease term as determined in the initial recognition calculation.

Notes to the financial statements

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

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

2.22 Intangible assets

Computer software and other intangible assets
Computer software and other intangible assets are stated at cost, less amortisation on a straight line basis and provisions for impairment, if any. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by AIB UK Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred. Capitalised computer software is amortised over 3 to 7 years. Other intangible assets are amortised over the life of the asset.

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

2.23 Impairment of property, plant and equipment, and intangible assets

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

The impairment review comprises a comparison of the carrying amount of the asset or cash generating unit with its recoverable amount. Cash-generating units are the lowest level at which management monitors the return on investment in assets. The recoverable amount is determined as the higher of fair value less costs to sell of the asset or cash generating unit and its value in use. Fair value less costs to sell is calculated by reference to the amount at which the asset could be disposed of in an arm’s length transaction evidenced by an active market or recent transactions for similar assets.

Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis. For intangible assets not yet available for use, the impairment review takes into account the cash flows required to bring the asset into use.

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

2.24 Non-current assets held for sale

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

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

2.25 Provisions for liabilities and commitments

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

When the effect is material, provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Notes to the financial statements

Payments are deducted from the present value of the provision, and interest at the relevant discount rate, is charged annually to interest expense using the effective interest method. Changes in the present value of the liability as a result of movements in interest rates are included in other income. The present value of provisions is included in other liabilities.

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

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

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

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

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

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

2.26 Shareholders' equity

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

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

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

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

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

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

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

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

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

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

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

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

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

2.27 Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits (excluding regulatory balances with the Bank of England). 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.

2.28 Prospective accounting changes

The following new accounting standards and amendments to existing standards approved by the IASB, but not early adopted by AIB UK Group, will impact AIB UK Group's financial reporting in future periods.

AIB UK Group is currently considering the impacts of these amendments. The new accounting standards and amendments which are more relevant to AIB UK Group are detailed below.

Amendments to IFRS 3 Business Combinations
The amendments to IFRS 3 Business Combinations, which were issued in October 2018, clarify the definition of a business through the following changes:

- to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process;
-they narrow the definitions of a business and outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.

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

Effective date: Business combinations where the acquisition date is on or after annual reporting periods beginning on or after 1 January 2020.

Amendments to IAS 1 and IAS 8: Definition of Material
The amendments to IAS 1 and IAS 8 regarding the definition of material which were issued in October 2018, clarify the definition of material through the following changes:

- a revised definition of 'material' which is included in the defined terms as follows:
  "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity".

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

Effective date: Annual reporting periods beginning on or after 1 January 2020.

Amendments to References to the Conceptual Framework in IFRS Standards
The IASB issued a revised version of its revised 'Conceptual Framework for Financial Reporting' that underpins IFRS Standards. The Conceptual Framework sets out the fundamental concepts of financial reporting that guide the Board in developing IFRS Standards. It helps to ensure the Standards are conceptually consistent and that similar transactions are treated the same way.

The Revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions of an asset and a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

None of the amendments are expected to have a significant impact on reported results or disclosures.

Effective date: Annual reporting periods beginning on or after 1 January 2020.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
In September 2019 the IASB issued 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)'. The amendments require qualitative and quantitative disclosures to enable users of financial statements to understand how an entity's hedging relationships are affected by the uncertainty arising from interest rate benchmark reform.

The changes in Interest rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7):

-modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument --are based will not be altered as a result of interest rate benchmark reform;

-are mandatory for all hedging relationships that are directly affected by the interest rate benchmark reform;

-are not intended to provide relief from any other consequences arising from interest rate benchmark reform (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, discontinuation of hedge accounting is required); and

-require specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments.

The AIB UK Group has early adopted these amendments for the year ended 31 December 2019. For further details of Interest Rate Benchmark Reform, see note 39.

Notes to the financial statements

3. Critical accounting judgements and estimates

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

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

Impairment of financial assets
AIB UK Group's accounting policy for impairment of financial assets is set out in note 2.18. The ECL allowances for financial assets at 31 December 2019 represent management's best estimate of the expected credit losses on the various portfolios at the reporting date.

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

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

Given the current political and economic uncertainties within the UK, management has considered the potential impact of a severe downturn in the UK economy and believe it is reasonable to apply a management overlay. See Note 19(a) for further details.

Estimates are involved in the inputs into the ECL calculation including DCFs; collateral valuations, time to realisation of collateral. Estimates are also involved in determining the amount of the management overlay. The sensitivity of the ECL allowance to changes in the macro-economic scenarios used in the calculation are set out in note 19(b) and 19(c).

Further information on impairment of financial assets measurement, methodologies and judgements is set out in Note 19(a).

Recoverability of deferred tax asset
AIB UK Group's accounting policy for deferred tax is set out in note 2.10 and details of AIB UK Group's deferred tax assets and liabilities are set out in note 26.

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

Judgement is involved in determining the period of time over which it is probable there will be sufficient future taxable profits against which the unutilised losses can be used. This includes making judgements on the impact of future economic conditions including, for 2019, Brexit.

Estimates of the level of future profitability are made in determining the amount of deferred tax asset on unutilised losses to recognise at the reporting date.
The factors considered by management in making these judgements and assumptions for the estimates are disclosed in note 26 together with a sensitivity analysis of the deferred tax asset to a change in the estimate of future profitability.

Retirement benefit obligations
AIB UK Group's accounting policy for retirement benefit plans is set out in note 2.9 and details of the key assumptions and the valuation of the AIB Group (UK) Pension Scheme (the 'UK Scheme'), at 31 December 2019 are set out in note 27.

Judgement is involved in determining the appropriate models to base the fair value, financial and demographic assumptions on. The choice of these drives the valuation of the UK Scheme assets and liabilities reported in the financial statements. Judgement was also required in determining the appropriate accounting treatment for the PBI. The PBI is similar to a traditional non-participating annuity, a buy- out, where risks associated with a portion of the retirement benefit scheme have been passed to the insurer.

Notes to the financial statements

However, under the terms of the PBI, AIB UK Group retain the legal obligation to meet the defined benefit obligations. Under a buy-out the pension scheme assets and liabilities would be derecognised, as all of the risks are transferred and no legal obligation remains, with any losses recognised in the income statement ("settlement accounting"). Judgement was required to determine whether there are material steps between the PBI purchased and any potential future buy-out as, if there were not material steps, then the PBI purchase would also trigger settlement accounting. Considering the steps required to undertake a full buy-out, it was decided that settlement accounting does not currently apply. As a result, losses associated with entering into the PBI are recognised in other comprehensive income.

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

The impact on the income statement, other comprehensive income and statement of financial position could be materially different if a different set of assumptions were used. The assumptions adopted for AIB UK Group's pension schemes are set out in note 27 to the financial statements, together with a sensitivity analysis of the scheme liabilities to changes in those assumptions.

Notes to the financial statements

4. Interest income

	2019 £m	2018 £m
Interest on loans and advances to banks at amortised cost	69	56
Interest on loans and advances to customers at amortised cost	251	226
Interest from finance leasing and hire purchase contracts	6	6
Interest income	**326**	288

Total interest income calculated using the effective interest method reported above that related to financial assets not carried at fair value though profit or loss is £326m (2018: £288m).

5. Interest expense

	2019 £m	2018 £m
Interest on deposits by banks	49	37
Interest on customer accounts	27	24
Interest on lease liabilities - see note 30	1	—
Interest expense	**77**	61

Total interest expense calculated using the effective interest method reported above that related to financial liabilities not carried at fair value though profit or loss is £77m (2018: £61m).

6. Net fee and commission income

	2019 £m	2018 £m
Retail banking customer fees	21	23
Credit related fees	15	11
Foreign exchange fees	9	10
Service charge(1)	10	10
Credit card commission	4	4
Other fees and commission	7	6
Fee and commission income	**66**	64
Fee and commission expense	(5)	(5)
Net fee and commission income	**61**	59

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

7. Net trading and other financial income

	2019 £m	2018 £m
Interest rate contracts	4	(2)
Net trading and other financial income	**4**	(2)

Notes to the financial statements

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

	2019 £m	2018 £m
Investment securities - equity	(1)	0.3
Net (loss)/gain on other financial assets measured at FVTPL	**(1)**	0.3

9. Other operating income

	2019 £m	2018 £m
Dividend income on equity investments measured at FVTPL	8	3
Profit on disposal of loans & advances to customers	4	—
Miscellaneous other operating income[1]	3	—
Other operating income	**15**	3

[1] Miscellaneous other operating income includes £3m (2018: nil) of insurance proceeds received relating to an historic fraud case.

10. Administrative expenses

	2019 £m	2018 £m
Wages and salaries	56	58
Social security costs	6	6
Pension costs		
- Defined contribution plans (note 27)	9	8
- Defined benefit plans (note 27)	(10)	(9)
Other personnel expenses	15	16
Personnel expenses	**76**	79
Operating lease rentals - property and equipment[1] (note 23)	1	5
Other administrative expenses	53	57
General and administrative expenses	**54**	62
Administrative expenses	**130**	141

[1] Operating lease rentals were impacted by the implementation of IFRS 16, the transition is explained in note 2.2.

For the year ended 31 December 2019, a charge of £4m (2018: £5m) was made to the income statement in respect of termination benefits arising from the voluntary severance programme in operation in AIB Group.

There is a charge included within administrative expenses in 2019 of nil (2018: £1m) in respect of the Financial Services Compensation Scheme ('FSCS') levy.

The average number of employees of AIB UK Group and AIB UK during the year was 1,000 (2018: 1,043).

Notes to the financial statements

11. Auditor's remuneration

Auditor's remuneration is included within other administrative expenses in the income statement. The charges included in 2019 and 2018, shown below exclusive of Value Added Tax (VAT), are both for audit services in relation to the current year and settlement of amounts relating to services provided in prior years not previously accrued. The fees were payable by AIB UK Group to the principal auditor, Deloitte LLP.

	2019 £'000	2018 £'000
Audit fees for statutory audit[1]	582	400
Other assurance services (including regulatory compliance work)[2]	52	118
Audit of pension schemes associated with AIB UK Group	58	58
Auditor's remuneration	**692**	576

[1] The audit of subsidiaries is included within the statutory audit fee. Additional audit fees of £182K were charged in 2019 in relation to the 2018 audit.
[2] Other assurance services includes Bank of England Assurance Reporting, CASS Client Money Report and, in 2018, the Term Funding Scheme Assurance audit. Due to their nature these services are usually performed by the external auditor.

12. Income tax charge from continuing operations

	2019 £m	2018 £m
UK corporation tax on profits for the period	27	18
Current tax	**27**	18
Origination and reversal of temporary differences	4	3
Change in deferred tax on losses of previously not recognised losses:		
- Current period	27	(3)
Deferred tax[1]	**31**	—
Total tax expense	**58**	18

[1] See Deferred taxation note 26.

The tax charge for the period is higher (2018: lower) than the 2019 standard average rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

	2019 £m	2018 £m
Corporation tax charge at standard average rate	31	25
Effects of:		
Expenses not deductible for tax purposes	(3)	(3)
Exempted income, income at reduced rates and tax credits	(2)	(1)
Income taxed at bank surcharge rate	8	5
Deferred tax assets reversal of amounts previously not recognised	—	(8)
Deferred tax assets written down	22	—
Other differences	2	—
Total tax expense	**58**	18

At 31 December 2019 the current taxation balance of AIB UK Group was a liability of £11m (2018: £10m liability) and of AIB UK was a liability of £11m (2018: £9m liability).

Notes to the financial statements

13. Dividends on equity shares

No dividends were paid during 2019 or 2018.

14. Transfer of financial assets

Continuing involvement in derecognised financial assets

Transfers to AIB UK Loan Management ('AIB UKLM')
In 2010 and 2011, AIB UK transferred certain impaired and vulnerable loans to AIB UKLM, a subsidiary of AIB plc. These loans were derecognised by AIB UK. However, AIB UK retains servicing rights in respect of the transferred financial assets which represents continuing involvement with those assets. Under the servicing arrangements AIB UK collects the cash flows on the transferred assets on behalf of AIB UKLM and in return AIB UK receives a fee to compensate adequately for performing the servicing of these assets (see note 6).

Sale of Assets to a Third Party
AIB UK Group sold a portfolio of loans to a third party in December 2017 and continued to service the loans on behalf of the purchaser until transition was completed in April 2018. AIB UK provided this servicing of the loans at an immaterial charge while they were in transition.

15. Derivative financial instruments

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

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

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

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

Hedging derivatives
In addition to meeting customer needs, AIB UK Group's principal objective in holding or issuing derivatives for purposes other than trading is the management of interest rate risks.

The operations of AIB UK Group are exposed to interest rate risk arising from the fact that assets and liabilities mature or reprice at different times or in differing amounts. Derivatives are used to modify the repricing or maturity characteristics of assets and liabilities in a cost efficient manner. This flexibility helps AIB UK Group to achieve liquidity and risk management objectives.

The accounting treatment of hedge transactions varies according to the nature of the instrument being hedged and the type of hedge transactions. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges, cash flow hedges, or net investment hedges.

With respect to exchange rate and interest rate contracts, the notional or contractual amounts of these instruments indicate the nominal value of transactions outstanding at the year end.

Cash flow hedges
AIB UK Group is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at variable rates or which are expected to be re-funded or re-invested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their contractual term and other relevant factors, including estimates of prepayments and defaults.

The aggregate principal balances and interest cash flows across all portfolios over time form the basis for identifying gains and losses on the effective portions of derivatives designated as cash flow hedges. These are initially recognised directly in equity as gains or losses not recognised in the income statement and are transferred to the income statement when the forecast cash flows affect net profit or loss.

The gains and losses on ineffective portions of such derivatives are recognised immediately in the income statement.

Notes to the financial statements

The net movement in derivatives designated as cash flow hedges recognised directly in equity through the statement of comprehensive income during 2019 is set out in note 35. AIB UK Group early adopted the amendments to IFRS 9 and IAS 39 in relation to Interest Rate Benchmark Reform, see note 39.

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

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

				2019				2018
Residual maturity	**< 1 year**	**1 < 5 years**	**5 years+**	**Total**	< 1 year	1 < 5 years	5 years+	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Notional principal amount	4,255	2,248	2,228	8,731	3,047	1,556	2,595	7,198
Positive fair value	8	18	96	122	6	11	73	90

The concentration of exposures of AIB Group UK, in respect of notional principal amounts of £8,731m (2018: £7,198m) and positive fair value of interest rate, exchange rate, equity and credit derivative contracts of £122m (2018: £90m), are in the UK as concentrations are based primarily on the location of the office recording the transaction.

The following table presents the notional principal amount of interest rate, exchange rate and hedging derivative contracts together with the positive and negative fair values attaching to those contracts at 31 December 2019 and 2018:

			2019			2018
	Notional Principal amount	**Fair Values Assets**	**Liabilities**	Notional Principal amount	Fair Values Assets	Liabilities
	£m	**£m**	**£m**	£m	£m	£m
Derivatives held for trading						
Interest rate derivatives - OTC						
Interest rate swaps	2,357	89	(94)	1,735	70	(85)
Interest rate options bought and sold	528	—	—	261	—	—
Total interest rate derivatives	2,885	89	(94)	1,996	70	(85)
Foreign exchange derivatives - OTC						
Foreign exchange contracts	410	6	(6)	467	7	(7)
Total foreign exchange derivatives	410	6	(6)	467	7	(7)
Total derivatives held for trading	3,295	95	(100)	2,463	77	(92)
Derivatives designated as cash flow hedges - OTC						
Interest rate swaps	5,436	27	(8)	4,735	13	(10)
Total derivatives held for hedging	5,436	27	(8)	4,735	13	(10)
Total derivative financial instruments	**8,731**	**122** [(1)]	**(108)**	**7,198**	**90**	**(102)**

[(1)]At 31 December 2019, 26% of fair value relates to exposures to banks (2018: 21%).

Cash flow hedges
The table below sets out the hedged cash flows which are expected to occur in the following periods. It also sets out the hedged cash flows which are expected to impact the income statement in the following periods:

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

					2018
	Within 1 Year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
AIB UK Group & AIB UK	£m	£m	£m	£m	£m
Forecast receivable cash flows	20	15	32	21	88
Forecast payable cash flows	8	3	5	—	16

For AIB UK Group, the ineffectiveness reflected in the income statement that arose from cash flow hedges is nil (2018: nil). The total amount recognised in other comprehensive income net of tax in respect of cash flow hedges was a credit of £13m (2018: debit £6m).

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

16. Loans and advances to banks

	AIB UK Group		AIB UK	
	2019	2018	2019	2018
	£m	£m	£m	£m
At amortised cost				
Funds placed with central banks	398	526	398	526
Funds placed with other banks	328	351	327	351
ECL allowance (note 18)	—	—	—	—
Total loans and advances to banks	**726**	877	**725**	877
Amounts include:				
Due from AIB plc and fellow subsidiaries	**255**	298	**254**	298
External rating:				
AA/AA-	430	539	430	539
A+/A	40	39	40	39
BBB+/BBB	256	299	255	299
Loans and advances to banks	**726**	877	**725**	877

Under reverse repurchase agreements, AIB UK Group can accept collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. No collateral was received in 2019 (2018: nil) in respect of government securities. No collateral (2018: nil) was repledged to the Bank of England as collateral for BACS membership.

Notes to the financial statements

17. Loans and advances to customers

AIB UK Group & AIB UK	AIB UK Group		AIB UK	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
At amortised Cost				
Loans and advances to customers	**7,033**	6,670	**7,035**	6,672
Amounts receivable under finance leases and hire purchase contracts	**161**	170	**161**	169
	7,194	6,840	**7,196**	6,841
ECL allowance (note 18)	**(89)**	(118)	**(89)**	(118)
Total loans and advances to customers	**7,105**	6,722	**7,107**	6,723
Amounts include:				
Due from AIB plc and fellow subsidiaries	**—**	—	**2**	2

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

Further disclosures relevant to AIB UK Group's loans and advances to customers are included in Credit risk disclosures, see note 19.

Notes to the financial statements

18. Loss allowance on financial assets

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

AIB UK Group & AIB UK	2019 £m	2018 £m
At 1 January	118	152
Net remeasurement of loss allowance - customers	23	15
Changes in ECL allowance due to write-offs	(40)	(49)
Changes in ECL allowance due to derecognition	(12)	—
At 31 December	**89**	118
Amounts include loss allowance on:		
Loans and advances to banks measured at amortised cost	—	—
Loans and advances to customers measured at amortised cost	89	118
	89	118

AIB UK Group's accounting policy for impairment of financial assets is set out in note 2.18. Whilst provisioning is a continuous process, provision adequacy is formally reviewed in AIB UK Group on a monthly basis to determine the overall provision requirement across all credit portfolios.

The following table shows the changes in ECL allowances for loans and advances to customers at amortised cost by ECL staging between 1 January 2019 and 31 December 2019.

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

Notes to the financial statements

AIB UK Group & AIB UK	Stage 1	Stage 2	Stage 3	2018 Total
	£m	£m	£m	£m
ECL allowance at 1 January	25	20	107	152
Total net P/L charge/(credit) during the period	5	4	6	15
Other movements with no P/L impact				
Changes in ECL allowance due to write offs & restructures	—	—	(49)	(49)
Total other movements	(8)	7	1	—
ECL allowance at 31 December	22	31	65	118

Net credit impairment losses - Income Statement
The following table shows the income statement net credit impairment losses on financial instruments for the years ended 31 December 2019 and 2018.

Credit impairment losses on financial instruments	2019 £m	2018 £m
Net measurement of loss allowance		
Loans and advances to customers	(23)	(15)
Credit impairment losses before recoveries	**(23)**	(15)
Recoveries of amounts written off in previous years	3	3
Net credit impairment losses	**(20)**	(12)

19. Credit risk disclosures

Credit risk management objectives are to:

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

(a) Measurement, methodologies and judgements
International Financial Reporting Standards 9 (IFRS 9) introduced the expected credit loss impairment model that requires a more timely recognition of ECL across AIB UK Group, and replaces the concept of recognising credit losses only when there is objective evidence that a loss has been incurred. The standard does not prescribe specific approaches used to estimate the ECL, 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 – 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
– Models used in the ECL calculation must incorporate reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

ECLs are defined in IFRS 9 as the weighted average of credit losses across multiple macroeconomic scenarios, with a probability weighting applied to each scenario, and are an estimate of credit losses over the life of a financial instrument.

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

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

Bases of Measurement
Under IFRS 9, 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
Under IFRS 9, financial assets are allocated to stages dependent on credit quality relative to when assets were originated.

Credit risk at origination
Credit risk at origination ('CRAO') is a key input into the staging allocation process. The origination date of an account is determined by the date on which AIB UK Group became irrevocably committed to the contractual obligation and the account was first graded on an appropriate model.

For undrawn credit facilities, AIB UK Group uses the date of origination as the date when it becomes party to the irrevocable contractual arrangements or irrevocable commitment. For overdrafts which have both drawn and undrawn components, the date of origination is the same for both.

AIB UK Group uses best available information for facilities which originated prior to a credit risk rating model or scorecard being in place. For accounts that originated prior to 1 January 2018, a neutral view of the macroeconomic outlook at the time is used, i.e. where macroeconomic variables are used in the Lifetime PD models, long-run averages are used instead of historical forecasts.

Stage 1 characteristics
Obligations are classified Stage 1 at origination, unless POCI, with a 12 month ECL being recognised. These obligations remain in Stage 1 unless there has been a significant increase in credit risk.

Accounts can also return to Stage 1 if they no longer meet either the Stage 2 or Stage 3 criteria, subject to satisfaction of the appropriate probation periods, in line with regulatory requirements.

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

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

SICR assessment
AIB UK Group's SICR assessment is determined based on both Quantitative and Qualitative measures:

Quantitative measure: This measure reflects an arithmetic assessment of the change in credit risk arising from changes in the probability of default. AIB UK Group compares each obligation's annualised average probability weighted residual lifetime probability of default ('LTPD') at origination (see the CRAO section) to its annualised average probability weighted residual LTPD at the reporting date. If the difference between these two LTPDs meets the quantitative definition of SICR, AIB UK Group moves 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. At adoption of IFRS 9, AIB UK Group determined that an account has met the quantitative measure if the average residual LTPD at the reporting date is more than double the average residual LTPD at origination, and the difference between the LTPDs being at least 50bps.

The impact of this measure is under regular review by AIB UK Group for items such as the (i) the volume of exposures moving frequently between Stage 1 and 2, (ii) potential over-reliance on backstop and qualitative measures for identifying Stage 2 exposures and (iii) comparison of Stage 1 and 2 exposures to the credit grading masterscale view of credit risk for exposures.

Qualitative measure: This measure reflects the assessment of the change in credit risk based on AIB UK Group's credit management of 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 trigger include, for example:
– A downgrade of the borrower's/facility's credit grade reflecting the increased credit management focus on these accounts; and
– Forbearance has been provided and the account is within the probationary period.

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

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

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

Two key criteria resulting in a classification of default are:
– Where AIB UK Group considers a credit obligor to be unlikely to pay his/her credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount; or
– The credit obligor is 90 days or more past due on any material credit obligation (count starts where any amount of principal, interest or fee has not been paid by a credit obligor at the date it was due).

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

The trigger for default is based on a calculation of the sum of all past due amounts related to the credit obligation for a retail credit obligor or related to the credit obligations for a non-retail credit obligor. AIB UK Group's definition of financial distress, forbearance, non-performing exposures and unlikeliness to pay are included in the Parent Group's Definition of Default policy.

Loans may return to Stage 3 if any of the default triggers reoccur.

Purchased or originated credit impaired (POCI)
POCIs are assets originated credit impaired where the difference between the discounted contractual cash flows and the fair value at origination is greater than or equal to 5%. AIB UK Group uses an appropriate discount rate for measuring ECL in the case of POCIs which is the credit-adjusted effective interest rate. This rate is used to discount the expected cash flows of such assets to fair value on initial recognition.

POCI obligations remain outside of the normal stage allocation process for the lifetime of the obligation. The ECL for POCI obligations is always measured at an amount equal to lifetime expected credit losses. The amount recognised as a loss allowance for these assets is the cumulative changes in lifetime expected credit losses since the initial recognition of the assets rather than the total amount of lifetime expected credit losses. AIB UK Group does not have any POCI assets.

Measurement of Expected Credit Loss
The measurement of ECL is estimated through one of the following four approaches:

i. **Standard approach**: This approach is used for the majority of exposures where each ECL input parameter (PD, LGD, EAD, and Prepayments - PP) is developed in line with standard modelling methodology which is set out in the Parent Group's IFRS 9 ECL Model Framework and has been approved by the relevant governance forum. AIB UK Group's IFRS 9 models have been approved in line with the Parent Group's Model Governance Framework.

ii. **Simplified approach**: For immaterial portfolios AIB UK Group has followed a simplified approach. This approach consists of applying portfolio level ECL averages, drawn from similar portfolios, where it is not possible to estimate individual parameters. These generally relate to portfolios where specific IFRS 9 models have not been developed due to immateriality, low volumes or where there are no underlying grading models. As granular PDs are not available for these portfolios, a non-standard approach to staging is required with more reliance on the qualitative criteria (along with the 30 days past due back-stop).

iii. **Discounted cash-flows ('DCFs')**: Assets are grouped together and modelled based on asset classification and sector with the exception of those Stage 3 assets where a DCF is used. DCFs are used as an input to the ECL calculation for Stage 3 credit impaired exposures where gross credit exposure is ≥ £ 500,000. It is AIB UK Group policy that the base case DCF represents the best estimate of loss for certain credit impaired exposures, taking account of forward looking information, economic conditions and case specific attributes. AIB UK Group incorporates forward looking information in the assessment of individual borrowers through the credit assessment process. The DCF assessment produces a base case ECL.

iv. **Management judgement:** Where the estimate of ECL does not adequately capture all available forward looking information about the range of possible outcomes, or where there is a significant degree of uncertainty, management judgement may be considered appropriate for an adjustment to ECL.

Effective interest rate
The ECL must incorporate the time value of money discounted to the reporting date using the effective interest rate ('EIR') determined at initial recognition or an approximation thereof.

– AIB UK Group uses an approximation approach based on the account level interest rate when calculating ECL which is applied to both drawn and undrawn commitments.
– This approach is subject to an annual assessment that all approximations remain appropriate and do not result in a material misstatement of the ECL.
– AIB UK Group has tested the appropriateness of using current interest rates as an approximation for the discount rates required for measuring ECLs under IFRS 9. This testing determined that using the current interest rates as the discount rates is an appropriate approximation.

Notes to the financial statements

Policy elections and simplifications

Low credit risk exemption

As allowed by IFRS 9, AIB UK Group utilises the practical expedient for the stage allocation of particular financial instruments which are deemed 'low credit risk'. This practical expedient permits AIB UK Group to assume, without more detailed analysis, that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have 'low credit risk' at the reporting date. AIB UK Group allocates such assets to Stage 1.

Under IFRS 9 the credit risk on a financial instrument is considered low if:

– the financial instrument has a low risk of default;
– the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and
– adverse changes in economic business conditions in the longer term may, (but will not necessarily) reduce the ability of the borrower to fulfil its contractual cash flow obligations.

This low credit risk exemption is applied to particular assets within the investment debt securities portfolio and for loans and advances to banks. Specifically, assets which have an internal grade equivalent to an external investment grade (BBB-) or higher.

If an asset does not meet the above criteria for the low credit risk exemption, further assessment is required to determine stage allocation. If such assets are on a watch list, they are categorised as Stage 2, otherwise, they are allocated to Stage 1.

Short-term cash

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

Lease receivables and trade receivables

For lease receivables, AIB UK Group has elected to use its standard methodology for both stage allocation and the ECL calculation and has elected to use an expedient (simplified approach) for trade receivables.

Credit risk models

Probability of default

PD is the likelihood that an account or borrower defaults over an observation period, given that they are not currently in default. The PD modelling approach uses a combination of rating grades/scores obtained from credit risk models, as outlined on page 105, along with key factors such as the age of an account, the current/recent arrears status or the current/recent forbearance status and macroeconomic factors to obtain the relevant 12 month (Stage 1) and Lifetime (Stage 2) PD.

Loss given default

LGD is a current assessment of the amount that will not be recovered in the event of default, taking account of future conditions. It can be thought of as the difference between the amount owed to AIB UK Group (i.e. the exposure) and the net present value of future cash flows less any costs expected to be incurred in the recovery process. If an account returns to performing from default (absent any loss making concession) or if the discounted post-default recoveries are equal to or greater than the exposure, the realised loss is zero.

The LGD modelling approach depends on whether the facility has underlying security and, if so, the nature of that security. The following sets out the approaches to the portfolios:

Retail portfolios

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

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

Non-retail portfolios

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

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

Notes to the financial statements

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

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

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

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

The expected maturity is used for assets in Stage 2, where the ECL must be estimated over the remaining life of the facility. The expected maturity approach is:
– Term credit products: the contractual maturity date, with exposure and survival probability adjusted to reflect behaviour i.e. amortisation and pre-payment;
– Revolving credit products: the period may extend beyond the contractual period over which AIB UK Group is exposed to credit risk, e.g. overdrafts and credit cards. AIB UK Group's approach for these is to assume an appropriate remaining term based on the characteristics of the portfolio and sensitivity of ECLs.

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

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

Debt forgiveness may subsequently arise where there is a formal contract with the customer for the write-off of the loan. In addition, certain forbearance solutions and restructuring agreements may include an element of debt write down (debt forgiveness). Refer to pages 108 and 111 for details of forbearance.

The contractual amount outstanding of loans written off during the year that are still subject to enforcement activity is outlined on page 108 and relate to non-contracted write-offs, both full and partial.

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

(b) Macroeconomic scenarios and weightings
The macroeconomic scenarios used by AIB UK Group for IFRS 9 purposes are subject to the Parent Group's existing governance process covering the development and approval of macroeconomic scenarios for planning and stress testing i.e. through Stress Test Working Group and Asset and Liability Committee (ALCo), and for noting at the AIB UK Group ALCo. The parameters used within AIB UK Group's ECL models include macroeconomic factors which have been established drivers of the default risk and loss estimates. Therefore, a different credit loss estimate is produced for each combination of macroeconomic factors within a particular scenario. These credit loss estimates for each given scenario are then weighted by the assessed likelihood of occurrence of the respective scenarios to yield the ECL outcome.

Macroeconomic scenarios:
AIB UK Group's approach is to use its base, downside ('global slowdown'), downside ('disorderly Brexit') and upside macro-scenarios from the financial planning and stress testing processes for IFRS 9 purposes. The use of current planning scenarios ensures that the scenarios used for IFRS 9 are consistent with AIB UK Group's expectations of potential outcomes at a point in time.

Non-linear effects are captured in the development of risk parameters as well as through the inclusion of both a single upside and two downside scenarios. The Parent Group's Economic Research Unit (ERU) provide base, downside and upside forecasts over five years for internal planning purposes and also for IFRS 9. These are then independently reviewed and challenged, on both a quantitative and qualitative basis, by the Parent Group's Enterprise Risk Management (ERM) function. The base case is benchmarked against the outlook available from official sources (e.g. ESRI, IMF, etc.). Upside and downside scenarios are provided based on realistic triggers for each scenario and represent sensitivities around the base.

For IFRS 9 purposes, longer-term projections are sourced from a reputable external provider with the internal base/upside and downside 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 approved on a quarterly basis at the Parent Group's ALCo and on an annual basis by the Parent Group's Board and for noting at the AIB UK Group ALCo. The scenarios are described below and reflect the views of AIB UK Group at the reporting date.

Base case: As at the reporting date, this reflects an 'orderly' Brexit outcome. Under an orderly Brexit, unemployment declines, the UK economy is not expected to suffer any significant disruption and will perform at close to its long-term potential with GDP rising at low single digit levels. House prices are expected to rise at low single digit levels, broadly in line with wage inflation over the next five years. The rate of increase in commercial real estate prices is expected to run at low single digit levels as the market moves closer to equilibrium.

In terms of the US economy, growth in GDP is expected to slow as a result of the diminishing effects of the significant fiscal stimulus, a slower pace of global growth and capacity constraints in the 'full-employment' labour market. Growth in the Eurozone is expected to improve slightly over the forecast period.

Downside ('global slowdown'): Under this scenario the global economy continues to lose momentum. The key triggers for this under this scenario are:
- a continued move towards protectionism, which would result in further escalation in trade tensions;
- an increase in risk aversion, which would cause large asset price shifts and financial market instability; and
- an 'orderly' Brexit outcome.

GDP growth and residential property price growth will steadily decline to sub one percent levels with commercial property prices experiencing negative growth over the next five years. Unemployment would steadily rise at mid-single digit levels as the global economy stalls.

Downside ('disorderly Brexit'): Under this scenario, the UK exits the EU in a disorderly manner and has to apply to World Trade Organisation ('WTO') rules. There is a significant slowdown in UK GDP in this period as a result of the deep links between the UK and EU economies.

The further uncertainty caused by a 'disorderly Brexit' stifles investment in both residential and commercial property sectors; producing negative growth in prices at single digit levels.

A 'Disorderly Brexit' results in a sharp decline in trade between the UK and EU as well as an outflow of investment from the UK, especially from the financial sector and a decline in FDI. The UK economy enters recession during this period. The impact on the EU is limited as less than 10% of EU exports go to the UK and the impact on the US is even more limited. The level of unemployment sharply increases to high single digit levels as the pervasive impacts of the decline in trade between the UK and EU are felt.

Upside: Under this scenario, given the moderate pace of growth in the current cycle since the end of the 2008-09 recession, there is scope for stronger growth in activity over the next number of years than is forecast in the base case. The lagged effects of very loose monetary conditions, with central banks able to maintain interest rates at low levels because of subdued inflation, would see growth strengthen above trend in advanced economies, helped also by an improvement in productivity and a recovery in international trade as tensions in this area subside. Additionally, other countries could follow the lead of the US and adopt a more expansionary fiscal programme of increased capital spending and tax cuts to boost growth, most notably in Europe. The UK agrees an 'orderly' Brexit with the EU.

The table below sets out the average five year forecast for each of the key macroeconomic variables forecast under (i) base; (ii) downside ('global slowdown'); (iii) downside ('disorderly Brexit');and (iv) upside scenarios at 31 December 2019 and 2018:

	2019				2018		
Macroeconomic factor (%)	**Base**	**Downside ('global slowdown')**	**Downside ('disorderly Brexit')**	**Upside**	Base	Downside	Upside
United Kingdom							
GDP growth	**1.5**	**0.6**	**0.3**	**2.4**	1.6	0.4	2.4
Residential property price growth	**3.3**	**0.3**	**(2.6)**	**5.3**	4.0	(1.6)	6.0
Unemployment rate	**3.6**	**6.1**	**7.1**	**3.3**	4.0	6.6	3.5
Commercial property price growth	**2.6**	**(1.5)**	**(3.8)**	**5.9**	3.4	(1.0)	6.7

The weights for the scenarios are derived based on the expert judgement, with reference to external market information, informed by a quantitative analysis. The key quantitative analysis is a statistical distribution analysis of GDP growth over different time horizons informed by historic patterns in the economic data.

These weightings were reviewed regularly during 2019. There have been two changes to the probability weightings during the reporting period

- The probability of the downside scenario (prior to the additional downside scenario being added) was increased by 5% in Q3 to reflect the increased uncertainty in relation to the Brexit process;
- A new downside scenario ('global slowdown') was introduced in Q4 2019 which required a full review of the probability weightings in order to incorporate this new scenario. As the UK election has brought increased certainty to the withdrawal element of Brexit this was deemed to have reduced the risk of the 'disorderly Brexit' scenario. A review of the new 'global slowdown' scenario indicated that as risks to the global economy remain to the downside, that this new scenario along with the 'disorderly Brexit' scenario should continue to have a significant probability attached. This reflects the fact that uncertainty, evident at 31 December 2019, in relation to both Brexit and global economic conditions, continues to remain elevated.

The four scenarios detailed above are used to reflect a representative sample of possible outcomes (i.e. base, downside ('global slowdown'), downside ('disorderly Brexit') and upside scenarios). The ECL allowance reflects a weighted average of the credit loss estimates under the four scenarios.

Similar to the scenario forecasts, the probability weight assigned to each scenario is proposed by the Parent Group's ERU, with a review and challenge from the Parent Group's ERM. These are subject to review at the Parent Group's ALCo and for noting at the AIB UK Group ALCo, and the probabilities described below reflect the views of AIB UK Group at the reporting date.

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

Scenario	**Weighting**	
	31 December 2019	31 December 2018
Base	**50%**	50%
Downside ('global slowdown')	**15%**	—
Downside ('disorderly Brexit')	**25%**	35%
Upside	**10%**	15%

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

(c) Sensitivities

AIB UK Group's estimates of expected credit losses are responsive to varying economic conditions and forward looking information. These estimates are driven by the relationship between historic experienced loss and the combination of forward looking macroeconomic variables. Given the co-relationship of each of the macroeconomic variables to one another and the fact that loss estimates do not follow a linear path, a sensitivity to any single economic variable is not meaningful. As such, the following sensitivities are provided which indicate the approximate impact on the current ECL allowance before the application of probability weights to the forward looking macroeconomic scenarios.

Macro-economic scenario weightings

The table below sets out the average five year forecast for each of the key macroeconomic variables forecast under (i) 100% base; (ii) 100% downside ('global slowdown'); (iii) 100% downside ('disorderly Brexit'); and (iv) 100% upside scenarios at 31 December 2019 and 2018 with the sensitivity based on application of 100% weighting to each of the economic scenarios:

	2019					2018			
	Reported	Base forecast	Downside forecast ('global slowdown')	Downside forecast ('disorderly Brexit')	Upside forecast	Reported	Base forecast	Downside forecast	Upside forecast
Loans and advances to customers	£m	£m	£m	£m	£m	£m	£m	£m	£m
Residential mortgages	14	14	15	16	13	24	23	24	23
Other personal	3	3	3	3	3	5	5	5	5
Property and construction	21	20	22	24	20	36	36	37	36
Non-property business	51	48	54	59	48	53	51	56	50
Total	89	85	94	102	84	118	115	122	114
Off balance sheet loan commitments	4	3	4	4	3	5	5	6	5
Financial guarantee contracts	2	2	2	2	2	2	2	2	2
Total	95	90	100	108	89	125	122	130	121

The weights for the scenarios are derived based on the expert judgement informed by a quantitative analysis. The quantitative analysis incorporates two approaches: a statistical analysis informed by both historic patterns in the economic data complemented by a more forward-looking approaches. These weightings have been reviewed regularly throughout 2019. The weightings have evolved over the year, predominantly driven by Brexit developments in the UK.

The scenario weightings are approved on a quarterly basis by the Parent Group's ALCo and for noting at the AIB UK Group ALCo.

Management overlay

Management judgement is an integral part of the ECL process. As part of the year end process, management have concluded that an overlay is required to address their view that the modelled outcome does not adequately quantify the potential impact of a severe downturn in the UK economy.

Having considered a range of scenarios and the probability of these outcomes, management consider it reasonable to apply a management overlay of £15m at year end (2018: £15m).

The overlay is a management judgement and represents management's view of the level of overall provisions that they believe is reasonable and prudent, given the current political and economic uncertainty.

(d) Maximum credit risk exposure

The maximum credit risk exposure of AIB UK Group at 31 December 2019, ignoring any collateral that may be held, is detailed below. The credit risks arising from balances at central banks and items in the course of collection are deemed to be negligible based on their maturity and counterparty status.

Statement of Financial Position	2019 £m	2018 £m
Balances at central banks at amortised cost[(1)]	3,251	3,506
Items in course of collection	5	12
Derivative financial instruments at FVTPL	122	90
Loans and advances to banks	726	877
Loans and advances to customers	7,105	6,722
Investment securities	32	33
Prepayments and accrued income	6	6
Other assets	17	88
Maximum exposure to credit risk	**11,264**	11,334

Total off balance sheet items	**1,991**	1,855

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

(e) Concentration exposure

Credit concentration risk arises where any single exposure or group of exposures, based on common risk characteristics, has the potential to produce losses large enough relative to AIB UK Group's capital, total assets, earnings or overall risk level to threaten AIB UK Group's ability to maintain its core operations.

As set out in the Managing Director's Review on page 7, AIB UK Group has a sector focused strategy. The sectoral analysis below is a broad industry analysis of the loan book which shows the most significant sector concentrations. Some of the key sectors that AIB UK Group's strategy is focusing on, such as professional services, health, hospitality and tourism, would be included within 'Other services' below.

At 31 December 2019 the most significant concentration of exposures were to the property and construction sector, which made up 22% (2018: 23%) of loans and advances to customers, and in residential mortgages, 15% (2018: 17%) of loans and advances.

The following table sets out the concentration of credit by industry sector for loans and advances to customers together with loan commitments and financial guarantees issued showing the ECL profile.

							2019
	Gross carrying amount			Analysed by ECL profile			
	Loans and advances to customers	Loan commitments and financial guarantees issued	Total	Stage 1	Stage 2	Stage 3	Total
Concentration by sector	£m	£m	£m	£m	£m	£m	£m
Agriculture	87	13	100	81	18	1	100
Energy	737	159	896	895	1	—	896
Manufacturing	306	129	435	338	63	34	435
Property and construction	1,585	587	2,172	1,975	169	28	2,172
Distribution	1,234	210	1,444	1,255	178	11	1,444
Transport	367	108	475	451	3	21	475
Financial	191	91	282	275	6	1	282
Other services	1,513	386	1,899	1,749	130	20	1,899
Personal:							
Residential mortgages	1,070	8	1,078	931	54	93	1,078
Other	105	143	248	226	18	4	248
Total	7,195	1,834	9,029	8,176	640	213	9,029

Notes to the financial statements

	Gross carrying amount			Analysed by ECL profile			2018
	Loans and advances to customers	Loan commitments and financial guarantees issued	Total	Stage 1	Stage 2	Stage 3	Total
Concentration by sector	£m	£m	£m	£m	£m	£m	£m
Agriculture	85	14	99	83	15	1	99
Energy	445	113	558	537	21	—	558
Manufacturing	317	100	417	371	42	4	417
Property and construction	1,556	585	2,141	1,947	136	58	2,141
Distribution	1,156	191	1,347	1,240	86	21	1,347
Transport	348	74	422	389	33	—	422
Financial	175	98	273	266	7	—	273
Other services	1,442	350	1,792	1,685	96	11	1,792
Personal:							
Residential mortgages	1,194	12	1,206	970	114	122	1,206
Other	122	153	275	240	29	6	275
Total	6,840	1,690	8,530	7,728	579	223	8,530

(f) Credit quality of loans and advances

Credit management and credit risk management continues to be a key area of focus. Resourcing, structures, policy and processes are subjected to on-going review to ensure the front line team is best placed to manage asset quality and assist borrowers in line with agreed treatment strategies, refer to Risk Management report, page 24.

The use of internal credit rating models is fundamental in assessing the credit quality of loan exposures, with variants of these used for the calculation of regulatory capital. Credit models generally use a combination of statistical analysis (using both financial and non-financial inputs) and expert judgement.

Credit grading and scoring systems underpin the early identification and management of any deterioration in loan quality. Changes in objective information are reflected in the credit grade of the borrowing with the resultant grade influencing management of individual loans. Special attention is paid to lower quality performing loans or 'criticised' loans. AIB UK Group's criticised loans are subject to more intense assessment and review because of the increased risk associated with them.

The credit grading Masterscale gives AIB UK Group the ability to categorise and contrast credit risk across different portfolios in a consistent manner. The Masterscale consolidates complex credit information into a single attribute, aligning the output from Risk Models with the Parent Group's Definition of Default ('DoD') policy. Credit grades are driven by model appropriated PDs to provide AIB UK Group with a mechanism of ranking and comparing the credit risk associated with a range of customers.

The Masterscale categorises loans into a broad range of grades which can be summarised into the following categories:

Strong/satisfactory	Accounts are considered strong/satisfactory if they have no current or recent credit distress and generally a probability of default less than 6%, are not in arrears and there are no indications they are unlikely to pay.
Criticised	Accounts of lower quality and considered as less than satisfactory are referred to as criticised and include the following: Criticised Watch: The credit is exhibiting weakness and is deteriorating in terms of credit quality and may need additional management attention; Criticised Recovery: Includes forborne cases that are classified as performing having transitioned from default, but still requires additional management attention to monitor for re-default and continuing improvement in terms of credit quality.
Non-performing	Accounts that are considered as defaulted or non-performing. Loans are identified as defaulted or non-performing by using a number of characteristics. The key criteria resulting in a classification of non-performing are: - Where AIB UK Group considers a credit obligor to be unlikely to pay his/her credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount. - The credit obligor is 90 days or more past due on any material credit obligation (date count starts where any amount of principal, interest or fee has not been paid by a credit obligor at the date it was due). - Loans that have, as a result of financial distress (as defined within the Parent Group's definition of default policy), received a concession from AIB UK Group on terms or conditions, and will remain in the non-performing probationary period for a minimum of 12 months before moving to a performing classification.

Credit risk - Credit profile of the loan portfolio

AIB UK Group's customer loan portfolio comprises loans (including overdrafts), instalment credit and finance lease receivables. An overdraft provides a demand credit facility combined with a current account. Borrowings occur when the customer's drawings take the current account into debit. The balance may, therefore, fluctuate with the requirements of the customer. Although overdrafts are contractually repayable on demand (unless a fixed term has been agreed), provided the account is deemed to be satisfactory, full repayment is not generally demanded without notice.

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

Amortised cost	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**2019 Total £m**
Total strong/satisfactory	**6,354**	**406**	**—**	**6,760**
Criticised watch	**64**	**136**	**—**	**200**
Criticised recovery	**—**	**35**	**—**	**35**
Total criticised	**64**	**171**	**—**	**235**
Non-performing	**—**	**—**	**199**	**199**
Gross carrying amount loans and advances to customers	**6,418**	**577**	**199**	**7,194**
ECL allowance	**(23)**	**(24)**	**(42)**	**(89)**
Carrying amount of loans and advances to customers measured at amortised cost	**6,395**	**553**	**157**	**7,105**

Amortised cost	Stage 1 £m	Stage 2 £m	Stage 3 £m	2018 Total £m
Total strong/satisfactory	6,098	145	—	6,243
Criticised watch	—	222	—	222
Criticised recovery	—	161	—	161
Total criticised	—	383	—	383
Non-performing	—	—	214	214
Gross carrying amount loans and advances to customers	6,098	528	214	6,840
ECL allowance	(21)	(31)	(66)	(118)
Carrying amount of loans and advances to customers measured at amortised cost	6,077	497	148	6,722

Notes to the financial statements

Aged analysis of contractually past due

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

At amortised cost					2018
	1-30 days	31-60 days	61-90 days	91 + days	Total
Industry sector	£m	£m	£m	£m	£m
Agriculture	1	—	—	1	2
Energy	—	2	—	—	2
Manufacturing	5	1	—	3	9
Property and construction	11	9	4	29	53
Distribution	5	1	—	6	12
Financial	1	—	—	—	1
Other services	3	—	—	4	7
Personal:					
Residential mortgages	5	9	8	59	81
Credit cards	1	—	—	—	1
Other	2	—	—	4	6
Total gross carrying amount	34	22	12	106	174
Asset quality					
Stage 1	14	1	—	—	15
Stage 2	17	15	4	—	36
Stage 3	3	6	8	106	123
Total	34	22	12	106	174
As a percentage of total gross loans	0.5%	0.3%	0.2%	1.5%	2.5%

Notes to the financial statements

(g) Collateral held

Credit risk mitigation may include a requirement for AIB UK Group to obtain collateral in support of its lending activities when deemed appropriate and has a series of policies and procedures in place for the assessment, valuation and taking of such collateral. In some circumstances, depending on the customers standing and/or the nature of the product, AIB UK Group may lend unsecured.

Where collateral or guarantees are required, they are usually taken as a secondary source of repayment in the event of the borrower's default. AIB UK Group maintains policies which detail the acceptability of specific classes of collateral.

The principal collateral types for loans and advances are:
– Charges over business assets such as premises, inventory and accounts receivable;
– Mortgages over residential and commercial real estate; and
– Charges over financial instruments such as debt securities and equities.

The nature and level of collateral required depends on a number of factors such as the type of the facility, the term of the facility and the amount of exposure. Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities and treasury products are generally unsecured, with the exception of asset backed securities, which are secured by a portfolio of financial assets.

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

The gross carrying value of loans and advances to customers and the nominal value of off balance sheet credit commitments and financial guarantee contracts which are credit impaired and for which AIB UK Group has not recognised a loss allowance because of the effects of collateral held is £45.1m (2018: £5.2m).

The contractual amount outstanding of loans written-off during the year that are subject to enforcement activity amounted to £2.5m (2018: £7.4m) which includes both full and partial write-offs.

(h) Repossessions

The number (stock) of repossessions of residential mortgages at 31 December 2019 is 26 (2018: 18), the balance outstanding is £2.9m (2018: £3m).

In respect of retail portfolios, AIB UK Group does not take physical possession of properties or other assets held as collateral. To settle indebtedness, it uses external agents to realise the value as soon as practicable. Any surplus funds are dealt with in accordance with appropriate insolvency regulations.

(i) Forbearance

Forbearance occurs when a borrower is granted a temporary or permanent concession or an agreed change to the terms of a loan for reasons relating to the actual or apparent financial stress or distress of that borrower. A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are currently unable to repay both the principal and interest in accordance with the original contract terms. Modifications to the original contract can be of a temporary or permanent nature.

AIB UK Group offers support by way of forbearance arrangements to customers in financial difficulty in both the commercial and retail mortgage portfolios. Forbearance support is provided with due care to achieve a beneficial impact for both AIB UK Group and the customer in that it can improve collection opportunities, reduce repossessions and lower realised losses. Where a customer requests forbearance, the circumstances will be assessed on an individual case basis and the request will be considered as a potential impairment indicator, whether the forbearance proposal is agreed to or not.

Notes to the financial statements

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

					2019
	Forborne loans and advances to customers at amortised cost				
	Residential mortgages £m	Other personal £m	Property and construction £m	Non-property business £m	Total £m
Strong/satisfactory:					
Total	—	—	—	—	—
Criticised:					
Stage 2	4	2	11	19	35
Total	4	2	11	19	35
Non-performing:					
Stage 3	32	1	5	6	45
Total	32	1	5	6	45
Total gross carrying amount of forborne loans and advances to customers at amortised cost	36	3	16	25	80
ECL allowance	(5)	—	(2)	(1)	(8)
Total carrying amount of forborne loans and advances to customers at amortised cost	**31**	**3**	**14**	**24**	**72**

					2018
	Forborne loans and advances to customers at amortised cost				
	Residential mortgages £m	Other personal £m	Property and construction £m	Non-property £m	Total £m
Strong/satisfactory:					
Total	—	—	—	—	—
Criticised:					
Stage 2	7	1	7	19	34
Total	7	1	7	19	34
Non-performing:					
Stage 3	40	2	19	8	69
Total	40	2	19	8	69
Total gross carrying amount of forborne loans and advances to customers at amortised cost	47	3	26	27	103
ECL allowance	(7)	(2)	(7)	(3)	(19)
Total carrying amount of forborne loans and advances to customers at amortised cost	40	1	19	24	84

Notes to the financial statements

Commercial forbearance

A Commercial forbearance measure occurs when AIB UK Group, for reasons relating to the actual or apparent financial stress of a borrower, grants a concession or modification to the original contractual terms to that borrower, which would otherwise not be justified, with a view to receiving more sustainable repayments and improved likelihood of ultimate repayment. The following table shows the various types of forbearance/contract modification that have been made as at 31 December 2019 and 2018.

	2019		2018	
	Total loans in forbearance		Total loans in forbearance	
	Number	Balance	Number	Balance
Commercial forbearance		£m		£m
Interest only	9	2	14	7
Reduced payment	6	5	4	1
Payment moratorium	3	3	2	—
Arrears capitalisation	2	—	6	—
Term extension	49	25	63	33
Restructure	92	3	84	5
Asset disposals	3	1	2	—
Other	20	2	16	7
Total	184	41	191	53

Residential mortgages forbearance

It is AIB UK Group's policy to enable customers who are experiencing temporary financial difficulties to stay in their property where possible.

If a mortgage customer notifies AIB UK Group of current or likely future financial difficulties which could lead to arrears/ impairment, AIB UK Group undertakes a full financial review of the customer's circumstances and submits any proposal for forbearance to its Retail FSG team.

To be acceptable, any forbearance proposals need to reasonably demonstrate that the mortgage borrowing will be sustainable over its full life. Consideration is given when forbearance is requested as to whether the level of risk merits provisioning for impairment.

Forbearance options may include:

- a period/further period of interest only payments;
- in exceptional circumstances, a moratorium of capital and interest mortgage payments where clear resumption of full repayment/clearance is evident within an acceptable timescale;
- an agreed contracted repayment amount for a defined period;
- a term extension;
- capitalisation of arrears, where no other option is feasible and the customer has met the requirements to allow this approach to be put in place.

AIB UK Group will agree the term for such forbearance proposals on a case by case basis, at the end of which payments should return to full capital and interest repayment. Loans in respect of declined applications for forbearance will remain in line with existing contracted terms.

In cases where forbearance is declined, but the customer offers a monthly contracted repayment this may be considered on a temporary basis, however, normal default procedures will continue to be applied.

If at the end of an agreed period of forbearance, the customer cannot return to full capital and interest repayment and arrears become a feature, the case will continue to be managed by its Retail FSG team. In exceptional cases only, the period of forbearance may be extended beyond the originally agreed forbearance term but such extensions require senior management approval.

The following tables analysed by type of forbearance, which were subject to forbearance measures at 31 December 2019 and 2018.

AIB UK Group and AIB UK

	2019		2018	
Forbearance	**At amortised cost**		At amortised cost	
	Number	**Total**	Number	Total
Mortgages		**£m**		£m
Interest only	**136**	**8**	156	11
Reduced payment	**54**	**3**	65	6
Payment moratorium	**123**	**7**	143	9
Arrears capitalisation	**140**	**10**	144	11
Term extension	**80**	**8**	94	10
Total	**533**	**36**	602	47

(j) Credit ratings of contingent liabilities and commitments

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

	2019	2018
	£m	£m
Strong	**1,566**	1,551
Satisfactory	**380**	234
Criticised watch	**30**	60
Criticised Recovery	**1**	—
Default	**14**	10
Total	**1,991**	1,855

20. Amounts receivable under finance leases and hire purchase contracts

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

	AIB UK Group		AIB UK	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Gross receivables				
Not later than 1 year	**63**	63	**63**	63
Later than 1 year and not later than 2 years	**48**	52	**48**	51
Later than 2 year and not later than 3 years	**30**	32	**30**	32
Later than 3 year and not later than 4 years	**15**	16	**15**	16
Later than 4 year and not later than 5 years	**8**	9	**8**	9
Later than 5 years	**1**	2	**1**	2
Total gross receivables	**165**	174	**165**	173
Unearned future finance income	**(4)**	(4)	**(4)**	(4)
Present value of minimum payments	**161**	170	**161**	169
Provision for uncollectible minimum payments receivable[1]	**1**	2	**1**	2

[1] Included in the ECL allowance on loans and advances to customers (note 18).

21. Investment securities

	2019	2018
AIB UK Group & AIB UK	**£m**	£m
Equity shares		
Equity shares - unlisted measured at FVTPL	**32**	33
Total investment securities	**32**	33

22. Intangible assets

AIB UK Group & AIB UK	Software Externally Purchased £m	Software Internally Generated £m	Software Under Construction £m	Total £m
				2019
Cost				
At 1 January	1	14	24	39
Additions	—	3	4	7
Transfers in/(out)	—	22	(22)	—
At 31 December	1	39	6	46
Amortisation/impairment				
At 1 January	1	4	—	5
Amortisation for the year	—	6	—	6
Impairment for the year	—	1	—	1
At 31 December	1	11	—	12
Carrying value at 31 December	**—**	**28**	**6**	**34**

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

The UK IFRS 9/IRB Model, which is a development model to comply with IFRS 9 and Internal Ratings Based model ('IRB'), has a carrying value of £14m. All assets relating to the programme are now live and amortising.

AIB UK Group & AIB UK	Software Externally Purchased £m	Software Internally Generated £m	Software Under Construction £m	Total £m
				2018
Cost				
At 1 January	1	10	17	28
Additions	—	1	10	11
Transfers in/(out)	—	3	(3)	—
At 31 December	1	14	24	39
Amortisation/impairment				
At 1 January	1	2	—	3
Amortisation for the year	—	2	—	2
At 31 December	1	4	—	5
Carrying value at 31 December	—	10	24	34

The additions and transfers in 2018 in internally generated software relate to OneUK, the CMA programme and a number of other regulatory and sustainment projects completed during 2018. Software under construction in 2018 are driven by the UK IFRS 9/IRB programme, Open Banking and the UK Image Clearing System.

Notes to the financial statements

23. Property, plant and equipment

	Property			Assets under Construction	Equipment	Right-of-use assets	2019 Total
	Freehold	Long Leasehold	Leasehold under 50 years			Property	
AIB UK Group	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Cost							
At 31 December 2018	17	3	14	2	27	—	63
Impact of adopting IFRS 16[1]	—	—	—	—	—	29	29
Restated balance at 1 January 2019	17	3	14	2	27	29	92
Additions	—	—	1	—	—	1	2
Transfers in/(out)	1	—	—	(1)	—	—	—
Amounts written off	(8)	(2)	(7)	—	(12)	—	(29)
At 31 December 2019	10	1	8	1	15	30	65
Depreciation/impairment							
At 31 December 2018	10	2	9	—	22	—	43
Impact of adopting IFRS 16[1]	—	—	—	—	—	—	—
At 1 January 2019	10	2	9	—	22	—	43
Depreciation charge for the year	—	—	1	—	1	4	6
Amounts written off	(8)	(2)	(7)	—	(12)	—	(29)
At 31 December 2019	2	—	3	—	11	4	20
Carrying value at 31 December 2019	**8**	**1**	**5**	**1**	**4**	**26**	**45**

[1]For details of the impact of adopting IFRS 16, see note 2.2.

The net book value of property occupied by AIB UK Group for its own activities at 31 December 2019 was £14m (2018: £13m). There were no branch properties sold during 2019 (2018: profit on disposal £2m).

Other right-of-use assets relate to leased ATM locations. Cost was £0.2m and depreciation £0.1m at 31 December 2019.

The accounting policy on the impairment of property, plant and equipment can be found in note 2.23.

	Property			Assets under Construction	Equipment	2018 Total
	Freehold	Long Leasehold	Leasehold under 50 years			
AIB UK Group	£m	£m	£m	£m	£m	£m
Cost						
At 1 January	17	6	14	2	27	66
Additions	—	—	1	1	1	3
Transfers	—	—	—	(1)	1	—
Amounts written off	—	(3)	(1)	—	(2)	(6)
At 31 December	17	3	14	2	27	63
Depreciation/impairment						
At 1 January	13	5	10	—	23	51
Depreciation charge for the year	—	—	—	—	1	1
Impairment	(3) [1]	—	—	—	—	(3)
Amounts written off	—	(3)	(1)	—	(2)	(6)
At 31 December	10	2	9	—	22	43
Carrying value at 31 December	7	1	5	2	5	20

[1] Impairment of £3m previously charged on an NI property, owned by subsidiary company Aberco Limited, was reversed in 2018.

AIB UK	Property Freehold £m	Property Long Leasehold £m	Property Leasehold under 50 years £m	Assets under Construction £m	Equipment £m	Right-of-use assets Property £m	2019 Total £m
Cost							
at 31 December 2018	8	2	13	2	26	—	51
Impact of adopting IFRS 16[1]	—	—	—	—	—	29	29
Restated balance at 1 January 2019	8	2	13	2	26	29	80
Additions	6	—	1	—	—	1	8
Transfers	1	—	—	(1)	—	—	—
Amounts written off	(5)	(1)	(6)	—	(11)	—	(23)
At 31 December 2019	10	1	8	1	15	30	65
Depreciation/impairment							
at 31 December 2018	5	1	8	—	23	—	37
Impact of adopting IFRS 16[1]	—	—	—	—	—	—	—
At 1 January 2019	5	1	8	—	23	—	37
Depreciation charge for the year	—	—	1	—	1	4	6
Transfers in/(out)	—	—	—	—	—	—	—
Amounts written off	(3)	(1)	(6)	—	(13)	—	(23)
At 31 December 2019	2	—	3	—	11	4	20
Carrying value at 31 December 2019	**8**	**1**	**5**	**1**	**4**	26	**45**

[1]For details of the impact of adopting IFRS 16, see note 2.2.

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

	Property			Assets under Construction	Equipment	Total
						2018
	Freehold	Long Leasehold	Leasehold under 50 years			
AIB UK	£m	£m	£m	£m	£m	£m
Cost						
At 1 January	8	5	13	2	26	54
Additions	—	—	1	1	1	3
Transfers	—	—	—	(1)	1	—
Amounts written off	—	(3)	(1)	—	(2)	(6)
At 31 December	8	2	13	2	26	51
Depreciation/impairment						
At 1 January	5	4	9	—	24	42
Depreciation charge for the year	—	—	—	—	1	1
Amounts written off	—	(3)	(1)	—	(2)	(6)
At 31 December	5	1	8	—	23	37
Carrying value at 31 December	3	1	5	2	3	14

Future capital expenditure
Future capital expenditure relates to both property, plant and equipment and intangible assets. There is £11m (2018: nil) estimated outstanding commitments for capital expenditure not provided for in the financial statements.

Capital expenditure authorised but not yet contracted for is £1m (2018: nil).

Leased Assets

Property leases
AIB UK Group leases property for its offices and retail branch outlets. The property lease portfolio consists of 26 leases, made up of 1 head office locations and 25 branch outlets, spread across the UK. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Both the head office property and retail branch lease terms are typically for a period of 10 to 20 years. Most of these leases carry statutory renewal rights, or include an option to renew the lease for an additional period after the end of the contract term. Where AIB UK Group is likely to exercise these options, this has been taken into account in determining the lease liability and likewise, the right-of-use asset.

Offsite ATM locations
Other ROU assets consist of ATM locations. These leases are for locations for ATMs held offsite (outside of the branch network) in Northern Ireland.

Finance lease commitments
There are a small number of obligations under finance leases where AIB UK Group and AIB UK is the lessee. Both the total future payments and the total present value are de minimis.

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

Amounts recognised in income statement

	2019 £ m
Interest on lease liabilities (note 5)	1
Depreciation expense on right-of-use assets	4
Expense relating to short term leases[(1) (2)]	—
Vat on repayment of lease liabilities (note 10)	1

[(1)]Included in 'General and administrative expenses' in note 10.
[(2)]At 31 December 2019, AIB UK Group has no committed spend on short-term leases.

Amounts recognised in the statement of cash flows

	2019 £ m
Repayment of lease liabilities during the period	5

Notes to the financial statements

24. Investments in group undertakings

AIB UK	2019 £m	2018 £m
At 1 January	0.3	0.3
Reversal of impairment in subsidiaries	1.0	—
Shares in group undertakings	1.3	0.3

Following an impairment review of the investment in subsidiaries in 2019 an amount of £1m previously impaired on the investment in First Trust Financial Services Limited was reversed and a further amount of £0.03m was impaired on the investment in First Trust Financial Planning Limited.

The subsidiary undertakings at 31 December 2019:

Subsidiary Name	Year End	Nature of Business
First Trust Financial Services Limited	31 December	Financial services
First Trust Financial Planning Limited	31 December	Financial services
Aberco Limited	31 December	Property investment
AIB Joint Ventures Limited	31 December	Investment
First Trust Leasing No.4 (Northern Ireland) Limited	31 December	Leasing
AIB Pensions UK Limited	31 December	Dormant company

All of the companies listed above are registered in Northern Ireland, with the exception of AIB Joint Ventures Limited and AIB Pensions UK Limited, which are registered in England and Wales.

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

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

As at 31 December 2019, AIB UK Group held no investments in associated undertakings (2018: nil), accounted for in accordance with IAS 28 *Investments in Associates*.

The principal activities of the Company and its subsidiaries (AIB UK Group) and the nature of its operations are set out in the Strategic report on page 3.

25. Other assets

	AIB UK Group		AIB UK	
	2019 £m	2018 £m	2019 £m	2018 £m
Items in transit	8	79	8	79
Non-current assets held for sale(1)	—	—	—	—
Other debtors	9	9	9	9
Other assets	17	88	17	88

(1) Included in Other Assets are Non-current assets held for sale of £300,000 at 31 December 2019 (2018: £300,000). The balance comprises of 7 vacant properties in Northern Ireland that are surplus to business requirements.

Notes to the financial statements

26. Deferred taxation

AIB UK Group & AIB UK	2019 £m	2018 £m
Deferred tax assets		
Unutilised tax losses	87	114
Other	6	8
Total deferred tax assets	93	122
Deferred tax liabilities		
Retirement benefits	(43)	(102)
Cash flow hedges	(4)	—
Total deferred tax liabilities	**(47)**	(102)
Net deferred tax assets	**46**	20
Represented on the statement of financial position:		
Deferred tax assets	61	53
Deferred tax liabilities	(15)	(33)

Analysis of movements in deferred taxation

AIB UK Group & AIB UK	2019 £m	2018 £m
At 1 January	20	12
Deferred tax through other comprehensive income	57	8
Income statement - continuing operations (note 12)	(31)	—
At 31 December	**46**	20

AIB UK Group's accounting policy for deferred tax is set out in note 2.10.

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 25% (2018: 25%), except for deferred tax on unutilised tax losses which is recognised at the relevant tax rate each year. A reduction in the UK corporation tax rate to 17% with effect from 1 April 2020 was substantively enacted on 16 March 2016. The deferred tax asset at 31 December 2019 has been calculated based on an aggregation of a rate of 17% and the additional 8% of tax suffered in relation to the banking surcharge.

Deferred tax assets are recognised for unused tax losses to the extent it is probable there will be sufficient future taxable profits against which the losses can be used. It requires significant judgements to be made about the projection of long-term future profitability and the period over which recovery extends.

In assessing future profitability, the Board has considered a range of positive and negative evidence for this purpose. The principal positive evidence and factors include:

- AIB UK Group has achieved pre-tax profits each year since 2013;
- AIB UK Group has a sustained history of long-term positive earnings prior to pre-tax losses incurred in 2010-2012, which were one-off events that are not expected to recur;
- the Business Plan for AIB UK Group for the period 2020 to 2022, which was approved by the Board in November 2019;
- continued financial support from the Parent; and
- the absence of any expiry dates for UK tax losses.

Against this, there are a number of uncertainties inherent in any long-term financial assumptions and projections and other negative evidence, including:

- the difficulty of accurately predicting future revenues;
- the absolute level of the deferred tax asset compared to the level of equity and the quantum of profits required to utilise the asset; and
- uncertainty around the impact of Brexit on the UK economy and the continued low interest rate environment and weakness in the Eurozone and in the Irish and global economies.

The Board have considered all these factors and have determined that recognition of the AIB UK deferred tax asset should continue to be restricted to the amount projected to be realised within fifteen years and is appropriately supported by forecast taxable profits, taking into account AIB UK Group's long-term financial and strategic plans. As a result, an amount of £407m (2018: £386m) of deferred tax assets relating to unutilised tax losses has not been recognised in the financial statements.

The measurement of the deferred tax asset is dependent on judgement as to the period of recoverability and estimates of projected future income. If future profits or subsequent forecasts differ from current forecasts an adjustment may be required to the deferred tax asset. This could result in a material impact to the income statement in future years. The sensitivity of the deferred tax asset to changes in forecasts and assumptions was considered.

- Change in tax rate: The tax rate assumption reflects a rate of 17% from 1 April 2020, being the substantively enacted rate. If the tax rate was maintained at the current rate of 19%, throughout the 15 year period of recognition, the deferred tax asset balance at 31 December 2019 would increase by £10m to £97m.
- Change in profit growth assumption: No growth in profits has been assumed after 2024. If this assumption was changed to 2% growth from 2024 onwards, while maintaining a 15 year restriction and other base assumptions, the deferred tax asset balance at 31 December 2019 would increase by £7m to £94m.
- No restriction on the period of recognition: If no restriction to the period of recognition of deferred tax asset on losses was applied, and no change made to the other base assumptions, the unutilised tax losses would be forecast to be fully utilised after 80 years from 31 December 2019.

The deferred tax asset due after more than one year is £83m (2018: £108m).

27. Retirement benefits

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

Defined contribution scheme
Employees who joined AIB UK Group after December 1997 joined on a defined contribution basis with an enhanced matched contribution scheme being available to them from 1 January 2009. When the UK defined benefit scheme closed to future accrual on 31 December 2013, all eligible employees from the defined benefit scheme then became members of the UK defined contribution scheme. The defined contribution scheme has a standard employer contribution rate of 10% plus an additional matched employer contribution, subject to total limits on age bands of 12%, 15% or 18%. For members who joined between December 1997 and 1 January 2009, and who did not opt to join the enhanced matched contribution scheme, the standard employer contribution rate is 5%.

Defined contribution members accrue benefits under S2P (the State Second Pension) and AIB UK Group also pays an amount for Permanent Health Insurance (PHI) in respect of these members.

The cost of the defined contribution scheme for 2019 was £9m (2018: £8m) and is included in Administrative expenses (note 10).

Defined benefit scheme
The UK Scheme was closed to new members from December 1997 and was closed to future accrual for all existing employees from 31 December 2013. Retirement benefits for the UK Scheme are calculated by reference to service and pensionable salary at 31 December 2013. Benefits payable upon retirement are based on the average pensionable salary over the five years to 31 December 2013 and are revalued up to retirement date in line with the requirements to revalue deferred benefits. The weighted average duration of the UK Scheme at 31 December 2019 is 18 years (2018: 17 years).

(a) Valuations and contributions
Independent actuarial valuations of the defined benefit scheme are carried out on a triennial basis by Mercer Limited, Actuaries and Consultants. The most recent valuation was carried out as at 31 December 2017 and was approved in May 2019. It concluded that the Notional Annual Contribution Amount payable by AIB UK Group to the Trustees of the UK Scheme would be £15m per annum payable quarterly with effect from 2019, based on the Projected Unit Method. Due to the timing of approval of the triennial valuation, contributions of £17m were made in accordance with this funding plan in 2019 (2018: £19m), as the revised Notional Annual Contribution Amount payable was phased in. In December 2019 this funding plan was replaced with a new funding plan, following the purchase of two insurance policies. See below for details.

(b) Governance
The Trustees of the UK Scheme are ultimately responsible for the governance of the scheme.

Notes to the financial statements

(c) Risks

The risks associated with the UK Scheme include:

- Market risk - where the value of the pension scheme assets may decline or their investment return may reduce due to market movements. This risk was reduced in December 2019 when the UK Scheme investments were replaced with two insurance policies.
- Actuarial risk - where the value of the UK Scheme liabilities may increase due to changes in the actuarial assumptions. This would include financial assumptions, such as discount rates and inflation, and demographic assumptions on life expectancy.

AIB UK has significantly reduced its exposure to risks from the UK Scheme through the funding arrangements that are in place as described at (d).

(d) Funding arrangements

Insurance policies

In December 2019, the Trustees purchased two insurance policies in relation to the UK Scheme, with the intention of reducing the risks associated with the UK Scheme. The policies comprised of:

- a Pensioner Buy-In ('PBI') to remove all identified financial and demographic risks attaching to current UK pensioners; and
- an Assured Payment Policy ('APP') to remove the majority of inflation and interest rate risk for UK deferred pensioners, with an option to convert part to a buy-in annually. The intention is to have converted the APP to a full buy-in within five years, thus removing exposure to the risks not covered by the APP.

The insurance policies were purchased utilising UK Scheme assets together with an additional amount of contributions of £22m received from the Asset backed funding arrangement referred to below (£10m contribution paid in December 2019, £12m contribution paid in January 2020). As the PBI policy for current pensioners exactly matches the amount and timing of the benefits covered, it has a value equal to the scheme liabilities. The APP for deferred pensioners does not provide sufficient match in terms of amount and timing of benefits payable under the UK Scheme, so it is measured at fair value. The purchase of the PBI policy resulted in a write down of the value of scheme assets through OCI.

Asset backed funding

In October 2013, the Parent Group executed a series of agreements to give effect to an asset backed funding plan which granted the UK Scheme a regular income payable quarterly from 1 January 2016 to 31 December 2032. In addition, if the 31 December 2032 actuarial valuation of the UK Scheme revealed a deficit, then the UK Scheme would receive a termination payment equal to the lower of the deficit or £60m.

To effect the funding plan the Parent Group established a pension funding partnership, AIB PFP Scottish Limited Partnership ('the SLP'), to which a portfolio of loans from another Parent Group entity, AIB UK Loan Management Limited ('UKLM') were transferred. This was to enable the repayments on these loans to be ring fenced to fund future deficit payments of the UK Scheme. The general partner in the partnership, AIB PFP (General Partner) Limited, which is an indirect subsidiary of AIB plc, has controlling power over the partnership. AIB UK Group has a junior interest in the SLP to enable payments from the SLP to the UK Scheme to be paid through the Company.

The majority of the risks and rewards are borne by the Parent Group as, while the UK Scheme has a priority right to the cash flows from the partnership, it is expected that the majority of and any variability in these cash flows will be recovered by the Parent Group through UKLM's junior partnership interest. As UKLM continues to bear substantially all the risks and rewards of the loans, the loans are not derecognised from UKLM's balance sheet and accordingly, the Parent Group has determined that the SLP should be consolidated into the Parent Group.

The cash flows from the SLP assets are being used to meet the future funding requirements of the UK Scheme. These funding requirements were subject to change over time as the triennial valuation was updated and the agreement between the Parent Group and the UK Scheme allowed for such variability in payments from the cash flows of the SLP assets. In May 2019, the 2017 triennial valuation was approved and an annual contribution of £15m was agreed to be paid from 1 January 2019 to 31 December 2032. Due to the timing of approval of the triennial valuation, contributions of £17m had been received by the UK Scheme in 2019 (2018: £19m) in the form of a transfer of cash from the SLP to the UK Scheme assets, in accordance with the Notional Annual Contribution Amount determined in the triennial valuation. A further contribution of £10m was paid in December 2019, and £12m in January 2020, in relation to the purchase of the insurance policies, as detailed above.

At 31 December 2019, the Trustees of the UK Scheme recognised an additional £144m (2018: £197m) of assets from UKLM as a result of this SLP arrangement, resulting in a net defined benefit asset of £171m at 31 December 2019 (2018: £408m). The UK Scheme will benefit from the SLP assets through the receipt of funding payments, through its junior interest in the SLP, but the UK Scheme does not own or control the assets. Excluding the benefit of the UK Scheme's recognition of the SLP assets, the net defined benefit asset at 31 December 2019 was £27m (2018: £211m).

As a result of the purchase of the insurance policies, the asset backed funding plan agreed in October 2013, which granted the UK Scheme a regular income payable quarterly from 1 January 2016 to 31 December 2032, was updated with a replacement funding plan. The new funding plan entitles the UK Scheme to annual contributions of £19m per annum for five years from 1 January 2020 to 31 December 2024, with a final contribution of £31m also payable in 2024. Part of these contributions will be utilised to convert the deferred APP to a buy-in each year, with full buy-in expected to be achieved by the end of 2024.

The SLP remains in place to fund the contributions required under the new agreements.

Investments
At 31 December 2018 42% of assets were invested in liability driven investments and 42% invested in bonds. A longevity swap was also held to reduce the risk relating to mortality rates. Following the purchase of the insurance policies in 2019 using the UK Scheme investments, the bonds, liability matching instruments and longevity swap were no longer held at 31 December 2019.

(e) Administration expenses
From 1 May 2019 the UK Scheme administration expenses have been paid from the scheme assets, with a £2m charge included in the valuation of the UK Scheme assets and recognised in Pension costs within Administrative expenses. Prior to this the UK Scheme administration expenses were paid by AIB UK and recognised in Other personnel expenses within Administrative expenses (note 10).

(f) Past service costs
An amount of £2m was charged to the income statement in 2018, when the UK Scheme had to equalise certain benefits as a result of the High Court ruling in October 2018 on Guaranteed Minimum Pensions (GMP) equalisation.

(g) Benefits paid
The UK Scheme allows participants an option for the payment before retirement of a lump sum transfer from UK Scheme assets to another pension arrangement of the individual's choice, in full satisfaction of the retirement benefit entitlement under the UK Scheme. During 2019 £32m (2018: £51m) of the benefits paid from the UK Scheme related to lump sum transfer values taken under the terms of the UK Scheme.

(h) Movement in defined benefit obligation and scheme assets
The following table sets out the movement in the defined benefit obligation and UK Scheme assets during 2019 and 2018.

	2019			2018		
	Defined benefit obligation £m	Fair value of scheme assets £m	Net defined benefit asset/ (liability) £m	Defined benefit obligation £m	Fair value of scheme assets £m	Net defined benefit asset/ (liability) £m
At 1 January	**(840)**	**1,248**	**408**	(974)	1,393	419
Included in income statement						
Interest (cost)/income	(23)	35	12	(23)	34	11
Administration expenses	—	(2)	(2)	—	—	—
Past service costs	—	—	—	(2)	—	(2)
	(23)	**33**	**10**	(25)	34	9
Included in other comprehensive income						
Remeasurements gain/(loss)						
Actuarial loss/(gain) arising from:						
- Experience adjustments	—	—	—	26	—	26
- Changes in demographic assumptions	1	—	1	6	—	6
- Changes in financial assumptions	(82)	—	(82)	49	—	49
Return on scheme assets excluding SLP	—	(135)	(135)	—	(46)	(46)
Contribution of asset from SLP to Scheme assets	—	27	27	—	19	19
Return on SLP assets	—	(58)	(58)	—	(74)	(74)
	(81)	**(166)**	**(247)**	81	(101)	(20)
Other						
Benefits paid	58	(58)	—	78	(78)	—
At 31 December	**(886)**	**1,057**	**171**	(840)	1,248	408

(i) Fair value of plan assets
The following table sets out the fair value of the assets held by the UK Pension Scheme.

	2019		2018	
	Value	Plan assets	Value	Plan assets
	£m	%	£m	%
Pensioner Buy-in	653	62	—	—
Assured Payment Policy	247	23	—	—
Bonds	2	—	525	42
Liability Driven Investments	—	—	530	42
Cash	11	1	2	—
Longevity swap	—	—	(6)	—
SLP assets	144	14	197	16
Fair value of plan assets	**1,057**	**100**	1,248	100
Actuarial value of liability	(886)		(840)	
Surplus in scheme	**171**		408	
Related deferred tax liability (note 26)	(43)		(102)	
Net pension asset	**128**		306	

The APP, Liability Driven Investments ('LDIs') and SLP assets do not have a quoted price in an active market. There are no transferable financial instruments or property assets used by AIB UK Group included in the pension scheme assets.

The SLP assets recognised by the UK Scheme at 31 December 2019 is management's best estimate of the valuation based on a deterministic model valuation provided by the Trustees' investment consultants.

Deferred taxation is provided on the defined pension scheme surplus at the rate of 25% (2018: 25%) being the expected corporation tax rate of 17% plus the UK bank surcharge of 8%.

(j) Financial assumptions
The following table summarises the financial assumptions adopted for the UK Scheme in the preparation of these financial statements:

As at 31 December	2019	2018
	%	%
Rate of increase of pensions in payment	2.9	3.2
Discount rate	2.1	2.9
Inflation assumptions:		
- Retail Price Index (RPI)	2.9	3.2
- Consumer Price Index (CPI)	2.1	2.2

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

Notes to the financial statements

(k) Demographic assumptions
The mortality tables used for 2019 and 2018 are based on data collected by the Continuous Mortality Investigation (CMI) in the previous year respectively. An updated future mortality projection model was adopted from 2015 and the assumptions include sufficient allowance for future improvements in mortality rates.

The life expectancies underlying the value of the scheme liabilities for the UK Scheme at 31 December 2019 and 2018 are as set out below.

	Retiring today at age 63		Retiring at age 63, currently aged 53	
Life expectancy from age 63	**2019**	2018	**2019**	2018
Male	25.0	25.0	25.4	25.8
Female	26.7	27.0	27.7	27.9

(l) Sensitivity of assumptions
The following table shows the sensitivity of the defined benefit obligation valuation of £886m at 31 December 2019 to changes in the key financial and demographic assumptions. The changes in assumptions have been considered independently of each other.

	Increase/(decrease) in defined benefit obligation of £886m	
Assumption	**if increase in assumption**	**if decrease in assumption**
	£m	**£m**
Discount rate (0.25% movement)	(40)	42
Inflation (0.25% movement)	39	(37)
Mortality (1 year movement)	(35)	34

28. Deposits by banks

	AIB UK Group		AIB UK	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Other borrowings from banks	539	613	**539**	605
Amounts include:				
Due to AIB plc and fellow subsidiaries	285	359	285	350

At 31 December 2019 and 31 December 2018, there were no securities sold under agreements to repurchase. £250m was borrowed from the Bank of England in February 2018 under the Term Funding Scheme, secured against pre-positioned collateral.

29. Customer accounts

	AIB UK Group		AIB UK	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Current accounts	5,853	5,821	5,853	5,821
Demand deposits	1,540	1,486	1,568	1,486
Time deposits	1,500	1,571	1,500	1,601
Customer accounts	**8,893**	8,878	**8,921**	8,908
Amounts include:				
Due to AIB plc and fellow subsidiaries	57	41	85	71

30. Lease liabilities

AIB UK Group & AIB UK	31 December 2019 £ m
At the end of period	**25**
Maturity analysis - contractual undiscounted cash flows:	
Not later than one year	5
Later than one year and not later than five years	16
Later than five years	8
Total undiscounted lease liabilities at end of period	**30**

On 1 January 2019, the AIB UK Group implemented the requirements of IFRS 16 Leases, a new accounting standard which replaced IAS 17. Under IFRS 16, the lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at a rate based on the cost of funding. The maturity analysis of the lease liabilities in the table above is on an undiscounted basis.

Principal repayments on lease liabilities recognised in the statement of cash flow are shown in note 23 Property Plant and Equipment. Interest expense on the lease liability is £1m, is shown in note 5.

Under IAS 17, leases classified as operating leases were not recognised in AIB UK Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. The total of future minimum lease payments under non-cancellable operating leases at 31 December 2018 is set out in the following table:

Operating lease rentals 2018

	AIB UK Group	AIB UK
	2018 £m	2018 £m
Future minimum lease payments under non-cancellable operating leases		
- Within one year	5	5
- Between one and five years	14	18
- Over five years	5	5
Operating lease rentals	24	28

2018: The minimum lease terms remaining on the most significant leases vary from 1 year to 11 years. The average lease length outstanding until a break clause in the lease arrangements was approximately 4 years, with the final contractual remaining terms ranging from 1 years to 11 years.

There are no contingent rents payable and all lease payments are at market rates.

Operating lease payments recognised as an expense for 2018 were £5m. Sublease income amounted to nil.

See note 2.2 for the reconciliation of AIB UK Group's operating lease obligations at 31 December 2018, as previously disclosed in the consolidated financial statements, to the lease obligations recognised on initial application of IFRS 16 at 1 January 2019.

Notes to the financial statements

31. Other liabilities

	AIB UK Group		AIB UK	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Notes in circulation	181	280	181	280
Items in transit	10	—	9	—
VAT payable	1	1	—	1
Other creditors	30	87	29	87
Other liabilities	**222**	368	**219**	368

32. Provisions for liabilities and commitments

							2019
	Customer redress	**Onerous contracts**	**Litigation**	**Property dilapidations**	**ECLs on loan commitments**	**ECLs on financial guarantee contracts**	**Total**
AIB UK Group	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
	(a)	(b)	(c)	(d)	(f)	(f)	
At 31 December 2018	7	3	6	—	6	2	24
Impact of adopting IFRS 16 at 1 January 2019[1]	—	(1)	—	1	—	—	—
Restated balance at 1 January 2019	7	2	6	1	6	2	24
Amounts charged/ (released) to income statement	4	(1)	—	—	(2)	—	1
Provisions utilised	(4)	—	(1)	—	—	—	(5)
At 31 December 2019	**7**	**1**	**5**	**1**	**4**	**2**	**20**

[1]For details of the impact of adopting IFRS 16 at 1 January 2019, see note 2.2.

							2018
	Customer redress	Empty properties	Litigation	Other	ECLs on loan commitments	ECLs on financial guarantee contracts	Total
AIB UK Group	£m	£m	£m	£m	£m	£m	£m
	(a)	(b)	(c)	(e)	(f)	(f)	
At 31 December 2017	9	5	6	1	—	—	21
Impact of adopting IFRS 9 at 1 January 2018:							
Reclassification	—	—	—	—	—	—	—
Remeasurement	—	—	—	—	1	—	1
Restated balance at 1 January 2018	9	5	6	1	1	—	22
Amounts charged/(released) to income statement	1	—	—	(1)	5	2	7
Reclassification	—	—	—	—	—	—	—
Provisions utilised	(3)	(2)	—	—	—	—	(5)
At 31 December 2018	7	3	6	—	6	2	24

Notes to the financial statements

AIB UK	Customer redress £m	Onerous contracts £m	Litigation £m	Property dilapidations £m	ECLs on loan commitments £m	ECLs on financial guarantee contracts £m	2019 Total £m
	(a)	(b)	(c)	(d)	(f)	(f)	
At 31 December 2018	4	3	4	—	6	2	19
Impact of adopting IFRS 16 at 1 January 2019[1]	—	(1)	—	1	—	—	—
Restated balance at 1 January 2019	4	2	4	1	6	2	19
Amounts charged/ (released) to income statement	4	(1)	1	—	(2)	—	2
Provisions utilised	(3)	—	(1)	—	—	—	(4)
At 31 December 2019	**5**	**1**	**4**	**1**	**4**	**2**	**17**

[1]For details of the impact of adopting IFRS 16 at 1 January 2019, see note 2.2.

AIB UK	Customer redress £m	Empty properties £m	Litigation £m	Other £m	ECLs on loan commitments £m	ECLs on financial guarantee contracts £m	2018 Total £m
	(a)	(b)	(c)	(e)	(f)	(f)	
At 31 December 2017	6	5	3	1	—	—	15
Impact of adopting IFRS 9 at 1 January 2018:							
Reclassification	—	—	—	—	—	—	—
Remeasurement	—	—	—	—	1	—	1
Restated balance at 1 January 2018	6	5	3	1	1	—	16
Amounts charged/(released) to income statement	1	—	1	(1)	5	2	8
Provisions utilised	(3)	(2)	—	—	—	—	(5)
At 31 December 2018	4	3	4	—	6	2	19

Notes

a) Provision is recognised for any obligation arising to refund customers for fees or charges, incurred in previous periods, where it is probable that a refund will be made and the amount can be reliably estimated. Included within customer redress at 31 December 2019 are the following provisions:

PPI provision

AIB UK Group holds a provision for PPI redress claims and associated costs. Time barring was introduced by the FCA and the deadline for submitting claims was 30 August 2019. The provision was increased by £1m in 2019 and after pay-outs of £2m (2018: £2m) the provision held as at 31 December 2019 is £1m (2018: £2m). The processing of claims received before the time bar is expected to be completed in 2020.

Interest Rate Hedging Products (IRHP) Provision

A provision of £1m (2018: £1m) was remaining at 31 December 2019 in respect of redress to customers arising from the IRHP review instigated by FCA in 2012. This provision is expected to be utilised over the next two years.

Other Customer Redress Provisions

Further provisions in relation to customer mis-selling, in respect of the sale of investment products, and other potential customer redress issues are held at 31 December 2019. £2m (2018: £1m) was paid out during the year in respect of mis-selling claims and legal costs and a net £3m increase in the provision charged to the income statement leaving a provision of £5m at 31 December 2019 (2018: £4m). £3m of the provision will be utilised in 2020 with outflows relating to the remaining provision expected to occur after 1 year.

b) The onerous contracts (previously empty property) provision at 31 December 2019 of £1m (2018: £3m) relates to a number of premises that were deemed surplus to requirements and a provision was required for the costs associated with these premises. £1m of the provision at 31 December 2018, relating to future rent on empty properties, was reclassified to lease liability (note 30) on 1 January 2019 as part of the transition to IFRS 16. During 2019 £1m (2018: nil) of the remaining onerous lease provision was released. The provision is expected to be utilised over a period longer than 3 years.

c) AIB UK Group has made provision for the cost of a number of legal claims that were outstanding at 31 December 2019. Management believes the amount provided of £5m (2018: £6m) represents the most appropriate estimate of the financial impact of these cases. This provision is reviewed by management regularly and updated for changes to estimates and judgements. The current provision is expected to be utilised over the next three years.

d) With the transition to IFRS 16 on 1 January 2019, a provision for property dilapidations was created of £1m. This relates to work that is required to be carried out, on exiting certain leasehold properties, to put the property back to the original or agreed condition. Property dilapidations form part of the ROU asset (note 23), which is depreciated over the term of the lease, and the provision will be used to pay the end of lease obligations when exiting the property.

e) Other provisions at 31 December 2018 were nil after the provision held in respect of the FSCS levy was released in 2018 when confirmation was received that there was no further liability under this scheme. There were no other provisions in 2019.

f) ECL on loan commitments and on financial guarantee contracts are provided for under IFRS 9 and reported within IAS 37 *Provisions for liabilities and commitments*. Loan commitments and guarantees are described and included in Contingent liabilities and commitments in note 36 and the internal credit ratings of these liabilities are set out in note 19 (j).

Provision is made for voluntary severance where the terms of severance have been agreed with an employee, and the employee has signed a compromise agreement to that effect. Due to there being no uncertainty around the amount or timing of the obligation, any such items are treated as accruals and have been included as such for 2019 and 2018, see note 10.

Notes to the financial statements

33. Senior non-preferred loan

	2019 £m	2018 £m
Senior non-preferred loan from immediate parent:		
£45 million Senior non-preferred loan due 2022, callable 2021	**45**	—

Maturity of Senior non-preferred loan from immediate parent	2019 £m	2018 £m
Dated Senior non-preferred loan outstanding is repayable as follows		
5 years or less	**45**	—

On 31 December 2019, the immediate parent issued a £45 million Senior non-preferred loan due 2022, callable 2021 for the purposes of meeting AIB UK Group MREL requirements.

The loan matures on 31 December 2022 but can be redeemed in whole, but not in part, at the option of AIB UK Group on the optional redemption date on 31 December 2021, subject to receipt of regulatory approval.

The dated loan capital is subordinated in right of payment to the senior creditors, including depositors, of the immediate parent, AIB Holdings (N.I.) Limited.

The loan bears interest on the outstanding nominal amount at a rate of 3 month LIBOR plus a margin of 121.5bps, payable quarterly in arrears, beginning on 31 March 2020.

34. Share capital

AIB UK Group & AIB UK	2019 £m	2018 £m
Authorised, issued and fully paid ordinary shares of £1 each	**2,384**	2,384

No ordinary shares were issued in 2019 or 2018.

35. Analysis of movements in reserves and other comprehensive income

			2019			2018
AIB UK Group & AIB UK	**Gross £m**	**Tax £m**	**Net £m**	Gross £m	Tax £m	Net £m
Cash flow hedge reserve						
Amount removed from equity and transferred to income statement	(3)	1	(2)	(5)	1	(4)
Change in fair value recognised in equity	20	(5)	15	(3)	1	(2)
Total	**17**	**(4)**	**13**	(8)	2	(6)
Retained earnings						
Actuarial (loss)/gain in retirement benefit schemes (note 27)	(247)	62	(185)	(20)	5	(15)
Total	**(247)**	**62**	**(185)**	(20)	5	(15)
Other comprehensive income	**(230)**	**58**	**(172)**	(28)	7	(21)

36. Contingent liabilities and commitments

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

AIB UK Group uses the same credit control and risk management policies in undertaking all off-balance sheet commitments as it does for on balance sheet lending including counterparty credit approval, limit setting and monitoring procedures. AIB UK Group's maximum exposure to credit loss under contingent liabilities and commitments, in the event of default by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments as shown in the table below.

	2019	2018
	Contract amount	Contract amount
AIB UK Group & AIB UK	£m	£m
Contingent liabilities[1]		
Guarantees and irrevocable letters of credit	151	142
Other contingent liabilities	48	75
	199	217
Commitments[2]		
Documentary credits and short-term trade related transactions	22	37
Undrawn credit facilities		
- One year and over	987	889
- Less than one year	783	712
	1,792	1,638
Contingent liabilities and commitments	**1,991**	1,855

[1]Contingent liabilities are off-balance sheet products and include guarantees, standby letters of credit and other contingent liability products such as performance bonds, contract bonds and custom bonds.
[2]A commitment is an off-balance sheet product, where there is an agreement to provide an undrawn credit facility. The contract may or may not be cancelled unconditionally at any time without notice depending on the terms of the contract.

For details of the internal credit ratings of contingent liabilities and commitments, see note 19, section (j).

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

37. Classification and measurement of financial assets and financial liabilities

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The accounting policies for financial assets in note 2.11 and financial liabilities in note 2.12 describe how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

The following tables analyse the carrying amounts of the financial assets and financial liabilities by category as defined in IFRS 9 *Financial Instruments: Recognition and Measurement* and by statement of financial position heading at 31 December 2019 and 2018.

						2019
	Carrying amount in statement of financial position					
	At fair value through profit or loss		At fair value through other comprehensive income	At amortised cost		Total
	Mandatorily	Equity investments	Cash flow hedge derivatives	Loans and advances	Other	
AIB UK Group	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Financial assets						
Cash and balances at central banks	—	—	—	3,328	—	3,328
Items in the course of collection	—	—	—	5	—	5
Derivative financial instruments	95	—	27	—	—	122
Loans and advances to banks	—	—	—	726	—	726
Loans and advances to customers	—	—	—	7,105	—	7,105
Investment securities						
– Equity shares	—	32	—	—	—	32
Other assets	—	—	—	—	17	17
Retirement benefit assets	—	—	—	—	144	144
Total assets	**95**	**32**	**27**	**11,164**	**161**	**11,479**
Financial liabilities						
Derivative financial instruments	100	—	8	—	—	108
Deposits by banks	—	—	—	—	539	539
Customer accounts	—	—	—	—	8,893	8,893
Other financial liabilities	—	—	—	—	222	222
Senior non-preferred loans	—	—	—	—	45	45
Total liabilities	**100**	**—**	**8**	**—**	**9,699**	**9,807**

						2018
	Carrying amount in statement of financial position					
	At fair value through profit or loss		At fair value through other comprehensive income	At amortised cost		Total
	Mandatorily	Equity investments	Cash flow hedge derivatives	Loans and advances	Other	
AIB UK Group	£m	£m	£m	£m	£m	£m
Financial assets						
Cash and balances at central banks	—	—	—	3,526	—	3,526
Items in the course of collection	—	—	—	12	—	12
Derivative financial instruments	77	—	13	—	—	90
Loans and advances to banks	—	—	—	877	—	877
Loans and advances to customers	—	—	—	6,722	—	6,722
Investment securities						
- Equity shares	—	33	—	—	—	33
Other assets	—	—	—	—	88	88
Retirement benefit assets	—	—	—	—	197	197
Total assets	77	33	13	11,137	285	11,545
Financial liabilities						
Derivative financial instruments	92	—	10	—	—	102
Deposits by banks	—	—	—	—	613	613
Customer accounts	—	—	—	—	8,878	8,878
Other financial liabilities	—	—	—	—	368	368
Total liabilities	92	—	10	—	9,859	9,961

38. Fair value of financial instruments

The term 'financial instruments' includes both financial assets and financial liabilities. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the AIB UK Group has access at that date. AIB UK Group's accounting policy for the determination of fair value of financial instruments is set out in note 2.14.

The valuation of financial instruments, including loans and advances, involves the application of judgement and estimation. Market and credit risks are key assumptions in the estimation of the fair value of loans and advances. AIB UK Group has estimated the fair value of its loans to customers taking into account market risk and the changes in credit quality of its borrowers.

Fair values are based on observable market prices where available, and on valuation models or techniques where the lack of market liquidity means that observable prices are unavailable.

The fair values of financial instruments are measured according to the following fair value hierarchy that reflects the observability of significant market inputs:

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

All financial instruments are initially recognised at fair value. Financial instruments held for trading, financial instruments in fair value hedge relationships and investment securities are subsequently measured at fair value through profit or loss. Cash flow hedge derivatives are subsequently measured at fair value through other comprehensive income.

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

The fair value information presented in this note does not purport to represent, nor should it be construed to represent, the underlying value of AIB UK Group as a going concern at 31 December 2019.

The methods used for calculation of fair value in the year to 31 December 2019 are as follows:

Financial instruments measured at fair value in the financial statements

Derivative financial instruments
Where derivatives are traded on an exchange, the fair value is based on prices from the exchange. The fair value of over the counter derivative financial instruments is estimated based on standard market discounting and valuation methodologies which use reliable observable inputs including yield curves and market rates. These methodologies are implemented by the Finance function and validated by the Risk function. Where there is uncertainty around the inputs to a derivative's valuation model, the fair value is estimated using inputs which provide the AIB UK Group's view of the most likely outcome in a disposal transaction between willing counterparties in a functioning market.

Where an unobservable input is material to the outcome of the valuation, a range of potential outcomes from favourable to unfavourable is estimated.

Counterparty Valuation Adjustment ('CVA') and Funding Valuation Adjustment ('FVA') are applied to all uncollateralised over the counter derivatives. CVA is calculated as: (Option replacement cost x PD x LGD). PDs are derived from market based Credit Default Swap ('CDS') information. As most counterparties do not have a quoted CDS, PDs are derived by mapping each counterparty to an index CDS credit grade. LGDs are based on the specific circumstances of the counterparty and take into account valuation of offsetting security where applicable. For unsecured counterparties, an LGD of 60% is applied.

The longevity swap held within the UK Scheme was exited in December 2019 as part of the change in the pension scheme assets funding arrangements (see note 27). The fair value at 31 December 2018 was a liability of £6m and was included within the value of the retirement benefit scheme assets.

Investment securities
The fair value of the equity investment securities has been estimated based on expected sale proceeds. The expected sale proceeds are based on applying a revenue multiplier to the income of the underlying trading entity. As there is no recently available market data for a directly comparable instrument, management judgement has been applied within this valuation technique.

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

Loans and advances to banks
The fair value of loans and advances to banks is estimated using discounted cash flows applying either market rates, where practicable, or rates currently offered by other financial institutions for placings with similar characteristics.

Loans and advances to customers
AIB UK Group provides lending facilities of varying rates and maturities to corporate and personal customers. Valuation techniques are used in estimating the fair value of loans, primarily using discounted cash flows and applying market rates where practicable.

In addition to the assumptions set out above under valuation techniques regarding cash flows and discount rates, a key assumption for loans and advances is that the carrying amount of variable rate loans (excluding mortgage products) approximates to market value where there is no significant credit risk of the borrower. For fixed rate loans, the fair value is calculated by discounting expected cash flows using discount rates that reflect the interest rate risk in that portfolio. No adjustment is made for credit risk under IFRS 9 since the expected credit loss model takes account of expectations on credit losses over the life of the loans.

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

Retirement benefit assets
In December 2019, the Trustees purchased two insurance policies in relation to the UK Scheme, a PBI policy and an APP policy (see note 27).

In line with IAS 19, the fair value of the PBI insurance policy for current pensioners is equal to the value of the scheme liabilities which it covers, which have been calculated using actuarial techniques. The APP for deferred pensioners does not provide sufficient match in terms of amount and timing of benefits payable under the UK Scheme, so it is measured at fair value. This fair value is determined by taking cash flows payable under the APP by the insurer and discounting them, at a rate equivalent to that at the point of execution of the policy, and adjusted for any change in the expected cash flows as a result of a change in future expected inflation and transfers out.

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

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

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

Notes to the financial statements

The table below sets out the carrying amount and fair value of financial instruments across the three levels of the fair value hierarchy at 31 December 2019 and 2018:

					2019
		Fair value hierarchy			
	Carrying amount	Level 1	Level 2	Level 3	Total
AIB UK Group	£m	£m	£m	£m	£m
Financial assets measured at fair value					
Derivative financial instruments	122	—	36	86	122
Equity investment securities at FVTPL	32	—	—	32	32
Financial assets not measured at fair value					
Cash and balances at central banks	3,328	77	3,251	—	3,328
Items in the course of collection	5	—	—	5	5
Loans and advances to banks	726	—	398	328	726
Loans and advances to customers	7,105	—	—	7,097	7,097
Other financial assets	17	—	—	17	17
Retirement benefit assets	171	—	—	171	171
Total assets	**11,506**	**77**	**3,685**	**7,736**	**11,498**
Financial liabilities measured at fair value					
Derivative financial instruments	108	—	108	—	108
Financial liabilities not measured at fair value					
Deposits by banks	539	—	250	305	555
Customer accounts	8,893	—	—	8,896	8,896
Other liabilities	222	—	—	222	222
Senior non-preferred loans	45	—	—	45	45
Total liabilities	**9,807**	**—**	**358**	**9,468**	**9,826**

	2018				
	Fair value hierarchy				
AIB UK Group	Carrying amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets measured at fair value					
Derivative financial instruments	90	—	27	63	90
Equity investment securities at FVTPL	33	—	—	33	33
Financial assets not measured at fair value					
Cash and balances at central banks	3,526	20	3,506	—	3,526
Items in the course of collection	12	—	—	12	12
Loans and advances to banks	877	—	526	351	877
Loans and advances to customers	6,722	—	—	6,675	6,675
Other financial assets	88	—	—	88	88
Retirement benefit assets	197	—	—	197	197
Total assets	11,545	20	4,059	7,419	11,498
Financial liabilities measured at fair value					
Derivative financial instruments	102	—	101	1	102
Financial liabilities not measured at fair value					
Deposits by banks	613	—	245	362	607
Customer accounts	8,878	—	—	8,879	8,879
Other liabilities	368	—	—	368	368
Total liabilities	9,961	—	346	9,610	9,956

Notes to the financial statements

Reconciliation of balances in Level 3 of the fair value hierarchy

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

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

			2018
			Financial assets
	Derivatives	Investment securities	Total
		Equities at FVTPL	
AIB UK Group	£m	£m	£m
At 1 January 2018	87	33	120
Total gains or losses in:			
Profit or loss	(25)	—	(25)
At 31 December 2018	62	33	95

Significant unobservable inputs

The table below sets out information about significant unobservable inputs used in measuring financial instrument categorised as Level 3 in the fair value hierarchy:

		Fair value		**Valuation technique**		**Significant unobservable input**	**Range of Estimates**	
Financial instrument		**31 December 2019**	31 December 2018				**31 December 2019**	31 December 2018
		£ m	£ m					
Derivatives	**Asset**	**86**	63	**CVA**	(1)	**LGD**	**47% - 67%**	46% - 69%
	Liability	**—**	1				**(Base 57%)**	(Base 55%)
				CVA		**PD**	**0.2% - 0.7%**	0.4% - 1.2%
							(Base 0.4% 1 year PD)	(Base 0.7%, 1 year PD)
				FVA	(1)	**Funding spreads**	**(0.2%) - 0.3%**	(0.3%) to 0.6%
Investment securities - equity	**Asset**	**32**	33	**Expected market value**		**Revenue multiplier**	**x 3**	x 3.1

[1]The fair value measurement sensitivity to unobservable inputs at 31 December 2019 ranged from (i) negative £5m to positive £2m for CVA (31 December 2018: negative £6m to positive £2m) and (ii) negative £1m to positive £1m for FVA (31 December 2018: negative £2m to positive £1m).

Sensitivity of Level 3 measurements
The implementation of valuation techniques involves a considerable degree of judgement. While AIB UK Group believes its estimates of fair value are appropriate, the use of different measurements or assumptions could lead to different fair values. The following table sets out the impact of using reasonably possible alternative assumptions in the valuation technology at 31 December 2019 and 2018:

	2019			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable £ m	Unfavourable £ m	Favourable £ m	Unfavourable £ m
Classes of financial assets				
Derivative financial instruments	3	(6)	—	—
Investment securities - equity	3 [1]	(3) [1]	—	—
Total	6	(9)	—	—

[1]Relates to the largest equity investment, the carrying value of which was £32m at 31 December 2019. Sensitivity information has not been provided for other equities as the portfolio comprises several investments, none of which is individually material.

	2018			
	Level 3			
	Effect on income statement		Effect on other comprehensive income	
	Favourable £ m	Unfavourable £ m	Favourable £ m	Unfavourable £ m
Classes of financial assets				
Derivative financial instruments	3	(8)	—	—
Investment securities - equity	2 [1]	(3) [1]	—	—
Total	5	(11)	—	—

[1]Relates to the largest equity investment, the carrying value of which was £33m at 31 December 2018. Sensitivity information has not been provided for other equities as the portfolio comprises several investments, none of which is individually material.

Notes to the financial statements

39. Interest rate sensitivity

Structural interest rate risk arises in AIB UK Group's banking business where assets and liabilities have different repricing dates. Part of AIB UK Group's return on financial instruments is obtained from controlled mismatching of the dates on which the instruments mature or, if earlier, the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates. The following tables set out details of those assets and liabilities whose values are subject to change as interest rates change within each contractual repricing time period.

Details regarding assets and liabilities which are not sensitive to interest rate movements are also included. The tables show the sensitivity of the statement of financial position at one point in time and are not necessarily indicative of positions at other times. In developing the classifications used in the tables it has been necessary to make certain assumptions and approximations in assigning assets and liabilities to different repricing categories. Non-interest bearing amounts relating to loans and advances to customers include provisions for impairment. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and maturity date. Transactions without defined repricing terms are shown according to management expectations. Contractual repricing does not illustrate the potential impact of early repayment or withdrawal. Positions may not be reflective of those in adjacent and/or future periods. Major changes can be made rapidly as the market outlook fluctuates. Further, significant variability may exist within the repricing periods presented.

Interest rate sensitivity

										2019
	0-1 Mths £m	1-3 Mths £m	3-12 Mths £m	1-2 Yrs £m	2-3 Yrs £m	3-4 Yrs £m	4-5 Yrs £m	5+ Yrs £m	Non-interest bearing £m	Total £m
Assets										
Loans and advances to banks	582	—	—	—	—	—	—	—	144	**726**
Loans and advances to customers	3,916	2,511	331	127	97	100	79	72	(128)	**7,105**
Investment securities	—	—	—	—	—	—	—	—	32	**32**
Other assets	3,251	—	—	—	—	—	—	—	538	**3,789**
Total assets	**7,749**	**2,511**	**331**	**127**	**97**	**100**	**79**	**72**	**586**	**11,652**
Liabilities										
Deposits by banks	426	23	19	8	9	8	7	39	—	**539**
Customer accounts	6,152	274	585	165	2	—	—	—	1,715	**8,893**
Other liabilities	—	—	—	—	—	—	—	—	457	**457**
Shareholders' equity	—	—	—	—	—	—	—	—	1,763	**1,763**
Total liabilities and shareholders' equity	**6,578**	**297**	**604**	**173**	**11**	**8**	**7**	**39**	**3,935**	**11,652**
Derivative financial instruments affecting interest rate sensitivity	(658)	2,131	(426)	(221)	(84)	(64)	(91)	(587)	—	
Interest sensitivity gap	**1,829**	**83**	**153**	**175**	**170**	**156**	**163**	**620**	**(3,349)**	
Cumulative interest sensitivity gap	1,829	1,912	2,065	2,240	2,410	2,566	2,729	3,349	—	

Interest rate sensitivity

	0-1 Mths £m	1-3 Mths £m	3-12 Mths £m	1-2 Yrs £m	2-3 Yrs £m	3-4 Yrs £m	4-5 Yrs £m	5+ Yrs £m	Non-interest bearing £m	Total £m
										2018
Assets										
Loans and advances to banks	649	—	—	—	—	—	—	—	228	877
Loans and advances to customers	4,083	1,948	401	117	99	86	87	56	(154)	6,722
Investment securities	—	—	—	—	—	—	—	—	33	33
Other assets	3,505	—	—	—	—	—	—	—	732	4,237
Total assets	8,238	1,948	401	117	99	86	87	56	839	11,869
Liabilities										
Deposits by banks	465	31	14	22	9	9	16	47	—	613
Customer accounts	6,048	286	546	250	3	—	—	—	1,746	8,878
Other liabilities	—	—	—	—	—	—	—	—	548	549
Shareholders' equity	—	—	—	—	—	—	—	—	1,829	1,829
Total liabilities and shareholders' equity	6,512	317	560	272	12	9	16	47	4,124	11,869
Derivative financial instruments affecting interest rate sensitivity	(72)	1,547	(288)	(330)	(82)	(80)	(88)	(607)	—	
Interest sensitivity gap	1,798	84	128	175	169	157	159	615	(3,285)	
Cumulative interest sensitivity gap	1,798	1,882	2,010	2,185	2,354	2,511	2,670	3,285	—	

Interest rate risk

AIB UK Group is exposed to the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of the change in market interest rates. Interest rate risk in the banking book is measured and controlled using three metrics:

- non-traded VaR;
- net interest income sensitivity; and
- economic value of equity.

Net interest income sensitivity captures the expected impact of changes in interest rates on base case projected net interest income for a specified financial period, typically one year.

Economic value of equity captures the expected impact of changes in interest rates on base case economic value. It captures all non-traded items irrespective of the profit and loss accounting treatment.

The following table sets out the estimated impact on AIB UK Group's base case projected net interest income for 2019 due to shocks of 100 basis points (bps) to the current market-implied path of interest rates. The sensitivities shown represent AIB UK Group's assessment as to the change in expected base case net interest income under the two rate scenarios assuming that all other non-interest rate risk variables remain constant, and there are no management actions.

In deriving the base case net interest income projections, the repricing rates of assets and liabilities used are derived from current yield curves, thereby reflecting current market expectations of the future path of interest rates. The scenarios therefore represent interest rate shocks to the current market implied path of rates.

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

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

Interest rate benchmark reform

Authorities and regulators have requested that the market transition from interbank offered rates 'IBOR' benchmark rates (e.g. LIBOR) to alternative Risk Free Rates (RFRs) by end 2021. The reform was not contemplated when IAS 39 was published, and consequently the IASB has published a set of temporary exceptions from applying specific hedge accounting requirements to provide clarification on how the relevant standards should be applied in these circumstances.

The application of this set of temporary exceptions is mandatory for accounting periods starting on or after 1 January 2020, but early adoption is permitted which AIB UK Group elected to do at 31 December 2019 (see note 2.28).

Significant judgement will be required in determining when uncertainty is expected to be resolved and, therefore, when the temporary exceptions will cease to apply. However, at 31 December 2019, the uncertainty continued to exist and so the temporary exceptions apply to all of AIB UK Group's hedge accounting relationships that reference benchmarks subject to reform or replacement.

The Parent Group has cash flow accounting relationships that are exposed to different IBORs. The transition not only impacts financial markets, but also many of AIB UK Group's customers who have an IBOR referenced in their contract. IBORs are extensively embedded within the AIB UK Group's processes, hence, this transformation will have far reaching impacts in terms of pricing, operations, risk, accounting, data and technology infrastructure, along with potential conduct risk implications.

The Parent Group mobilised an Interest Rate Benchmark Reform Transition Programme in 2018 to manage the successful evolution to, and embedding of, RFRs. The programme is sponsored by the Parent Group's Chief Financial Officer, overseen by a steering committee, chaired by a senior Treasury executive, supported by a project management layer and working groups comprising representation from customer-facing businesses, Finance, Treasury, Risk, Compliance, Legal, Operations and Customer and Strategic Affairs.

The programme is organised into four main workstreams, namely:
- Business readiness;
- Technology;
- Contract re-papering; and
- Customer communications and conduct.

The programme is structured to deliver IBOR transition by the regulators' deadline of 31 December 2021, with much of the recent action focused on business readiness activities, agreeing new fall-back clauses and preparing for awareness amongst the Parent Group's customers.

AIB UK Group is exposed to LIBOR within its cash flow hedge accounting relationships, which is subject to interest rate benchmark reform. The nominal value of the associated interest rate swaps at 31 December 2019 was £5.4bn, the average maturity was 2 years and the longest maturity was 9 years.

AIB UK Group will continue to apply the amendments to IFRS 9 and IAS 39 until the uncertainty arising from interest rate benchmark reform, with respect to the timing and amount of underlying cash flows, ends. The Parent Group has assumed that this uncertainty will not end until AIB UK Group's contracts that reference IBORs are amended or fall-back clauses are added to existing contracts.

Notes to the financial statements

40. Cash and cash equivalents

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

	AIB UK Group		AIB UK	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Cash and balances with central banks	**3,328**	3,526	**3,328**	3,526
Loans and advances to banks[1]	**244**	297	**244**	297
Deposits by banks	**(69)**	(112)	**(69)**	(112)
Cash and cash equivalents	**3,503**	3,711	**3,503**	3,711

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

41. Statement of cash flows - investing activities

The table below sets out the cash flows from investing activities:

	AIB UK Group		AIB UK	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Additions to property and equipment	**(2)**	(3)	**(8)**	(3)
Proceeds from disposals of property and equipment	**—**	4	**—**	4
Additions to intangible assets	**(7)**	(11)	**(7)**	(11)
Cash flows from investing activities	**(9)**	(10)	**(15)**	(10)

Notes to the financial statements

42. Financial assets and liabilities by contractual residual maturity

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

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

						2018
	Repayable on demand	3 months or less, but not repayable on demand	1 year or less, but over 3 months	5 years or less, but over 1 year	Over 5 years	Total
	£m	£m	£m	£m	£m	£m
Financial assets						
Loans and advances to banks	861	16	—	—	—	877
Loans and advances to customers[1]	334	118	320	3,844	2,224	6,840
	1,195	134	320	3,844	2,224	7,717
Financial liabilities						
Deposits by banks	112	63	7	331	100	613
Customer accounts	7,338	732	553	255	—	8,878
	7,450	795	560	586	100	9,491

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

The analysis by remaining maturity of loans and advances to customers is based on contractual maturity dates, which are the earliest dates on which repayment can be demanded. Past experience would indicate repayment frequently takes place prior to contractual maturity dates.

Notes to the financial statements

43. Financial liabilities by undiscounted contractual maturity

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

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

						2018
	Repayable on demand	3 months or less, but not repayable on demand	1 year or less, but over 3 months	5 years or less, but over 1 year	Over 5 years	Total
	£m	£m	£m	£m	£m	£m
Deposits by banks	112	81	13	351	100	657
Customer accounts	7,338	737	558	257	—	8,890
Derivative financial instruments	—	8	19	52	49	128
Other liabilities	368	—	—	—	—	368
	7,818	826	590	660	149	10,043

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

	2019	2018
	Repayable on demand	Repayable on demand
	£m	£m
Contingent liabilities	**199**	217
Commitments	**1,792**	1,638
Contingent liabilities and commitments	**1,991**	1,855

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

Notes to the financial statements

44. Related party transactions

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

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

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

Key management personnel are those persons considered having the authority and responsibility for planning, directing and controlling the activities of AIB UK Group, directly or indirectly. They comprise executive and non-executive Directors of AIB UK Group and members of the Senior Management Team.

The number of loans and amounts outstanding at the year-end under transactions, arrangements and agreements entered into by AIB UK or its subsidiaries or the Parent with key management personnel and other related parties were:

	2019			2018		
	Number of persons	Number of loans	Balance at year end £m	Number of persons	Number of loans	Balance at year end £m
Key management personnel	7	18	1.4	9	19	1.8

Home and personal loans to key management personnel are made available on the same terms as are available to all our colleagues. Commercial loans and loans to related parties are made in the ordinary course of business on normal commercial terms. The loans are primarily of a secured nature and there are no provisions raised against any of the loans.

These loans do not involve more than the normal risk of repayment or present other unfavourable features. No guarantees were given or received in relation to these transactions.

(b) Key Management Personnel compensation

The table below outlines the compensation paid to key management personnel during the year:

	Key management personnel		Highest paid key management personnel	
	2019 £m	2018 £m	2019 £m	2018 £m
Salary and other short-term benefits	3.4	3.2	0.5	0.5
Post-employment benefits	0.3	0.2	—	—
Termination benefits	—	0.1	—	—
Total	3.7	3.5	0.5	0.5

In 2019 there were 19 key management personnel for all or part of the year (2018: 23). The table above represents the compensation paid in relation to the period for which they were key management personnel.

No payments to former Directors were made during the year (2018: nil).

During the year none of the key management personnel exercised share options in the Parent, AIB plc, nor were they due any amounts from long-term incentive schemes (2018: nil).

There were no termination benefits payments made to key management personnel in 2019. Termination benefits payments relate to severance payments made to key management personnel who left during 2018.

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

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

(d) Immediate parent and subsidiary undertakings

In accordance with IAS 24, Related Party Disclosures, intra-group related party transactions and outstanding balances are eliminated in the preparation of the consolidated financial statements of AIB UK Group. AIB UK Group enters into transactions with the subsidiary companies listed in note 24. Funding is provided on terms similar to those that apply to third parties.

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

	2019		2018	
	Immediate parent	Subsidiaries	Immediate parent	Subsidiaries
	£m	£m	£m	£m
Statement of financial position				
Loans and advances	—	—	—	2
Deposits	—	27	1	30
Senior non-preferred loans	45	—	—	—
Income statement				
Interest expense	—	—	—	—

(e) Ultimate parent and fellow subsidiaries

Transactions that AIB UK Group enter into with AIB plc and fellow subsidiaries are made in the ordinary course of business at normal commercial terms. AIB UK Group use derivatives to manage its interest rate risk.

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

	2019		2018	
	AIB plc	Fellow subsidiaries	AIB plc	Fellow subsidiaries
	£m	£m	£m	£m
Statement of financial position				
Loans and advances				
- Due from AIB plc and fellow subsidiaries	255	—	298	—
Deposits	285	57	359	41
Derivative financial instruments assets	31	—	19	—
Derivative financial instruments liabilities	106	—	100	—
Income statement				
Interest income	43	—	33	—
Interest expense	47	—	35	—
Net fee and commission income	—	10	—	10
Trading and other income/(expense)	(37)	—	(1)	—
Administrative expenses	29	—	29	—

In 2019, there were no transactions between AIB UK Group and the ultimate holding company, AIB Group plc. (2018: nil).

f) Loans acquired from other AIB Group companies

During 2013, AIB UK Group acquired loans with a gross book value of £201m from other AIB Group companies. In 2019 AIB UK Group recognised £4.6m (2018: £2.2m) fair value amortisation income on these loans.

Notes to the financial statements

(g) Transactions with Key Management Personnel

Connected persons

The aggregate of loans to connected persons of Directors in office are as follows (aggregate of 3 persons; 2018: 5):

	2019	2018*
Loans	**£'000**	£'000
Total	**12**	5

*Restated 2018 balance from £4m to £5k due to a change in criteria in classification of loans to connected persons.

The total interest received on these loans in 2019 was nil (2018: nil).

The loans are made on normal commercial terms, and there are no impairment provisions on any of these loans (2018: nil).

45. Events after the reporting period

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

46. Parent company

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

AIB Group plc is the ultimate parent company of AIB UK. The Ultimate Parent Group is the largest group, of which AIB UK is a member, for which consolidated accounts are prepared. The financial statements of Allied Irish Banks, p.l.c. and of the ultimate parent company are available from AIB Bankcentre, Ballsbridge, Dublin 4. Alternatively, information can be viewed by accessing AIB's website at www.aib.ie/investorrelations.

Glossary of terms

Arrears	Arrears relates to any interest or principal on a loan which was due for payment, but where payment has not been received.
AIB GB	Allied Irish Bank (GB)
Allied Irish Banks, p.l.c.	The principal operating company
AIB Group plc	Holding company and ultimate parent of Allied Irish Banks, p.l.c. and AIB UK
AIB NI	AIB (NI), formerly First Trust Bank
AIB UK	“AIB UK”, “The Bank” or “The Company” will relate to AIB Group (UK) p.l.c.
AIB UK Group	“AIB UK Group” will relate to AIB Group (UK) p.l.c. and its subsidiaries
ALCo	Asset & Liability Committee
AMLD	Anti-money Laundering Directive
APM	Alternative performance measure
API	Application Programming Interface
BPS	Basis points
Brexit	An abbreviation for “British exit” referring to the UK’s decision to withdraw from the European Union (‘EU’), based on the referendum held on 23 June 2016 and the political process associated with the EU.
CBI	Central Bank of Ireland
CDS	Credit Default Swap
CET 1	Common Equity Tier 1
CFO	Chief Financial Officer
CIR	Cost income ratio
CMA	Competition and Markets Authority
CMI	Continuous Mortality Investigation
Contractual maturity	The period when a schedule payment is due and payable in accordance with the terms of a financial instrument.
Code	Code of Conduct
CPI	Consumer Price Index
CRD	Capital Requirements Directive
CRD IV	Capital Requirements Directive IV
Credit risk	The risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.
Criticised loans	Loans requiring additional management attention over and above that normally required for the loan type.
CRAO	Credit risk at origination
CRO	Chief Risk Officer
Customer accounts	A liability of the Bank where the counterparty to the financial contract is typically a personal customer, a corporation (other than a financial institution) or the government. This caption includes various types of deposits and credit current accounts, all of which are unsecured.
CVA	Counterparty Valuation Adjustment
DCF	Discounted cash flow
DFA	Derecognised forborne asset
Default	When a customer breaches a term and/or condition of a loan agreement, a loan is deemed to be in default for case management purposes. Depending on the materiality of the default, if left unmanaged it can lead to loan impairment. Default is also used in Basel II context when a loan is either 91+ days past due or impaired, and may require additional capital to be set aside.
EAD	Exposure at Default (‘EAD’) is the expected or actual amount of exposure to the borrower at the time of default.
ECB	European Central Bank
ECL	Expected Credit Loss
ERM	Enterprise Risk Management
ERU	Economic Research Unit
ESRI	Economic and Social Research Institute
EU	European Union

ExCo	Executive Committee
FCA	Financial Conduct Authority
FDI	Foreign Direct Investment
Forbearance	Forbearance is the term that is used when repayment terms of the mortgage contract have been renegotiated to make payment terms more manageable for borrowers. Forbearance techniques have the common characteristics of rescheduling principal or interest repayments, rather than reducing them. Standard forbearance techniques employed by AIB UK Group include interest only, a reduction in the payment amount, a temporary deferral of payment (a moratorium), extending the term of the mortgage and capitalising arrears amounts and related interest.
Framework	AIB Group Subsidiary Governance Framework
FSG	Financial Solutions Group
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
FTB	First Trust Bank
FTE	Full time equivalent
FTSE	Financial Times Stock Exchange
FVA	Funding Valuation Adjustment
FVOCI	Fair value through other comprehensive Income
FVTPL	Fair value through profit and loss
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
IAS	International Accounting Standard Regulation
IBB	Internet Business Banking
IBOR	Interbank Offered Rate
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
Impaired loans	Loans are typically impaired when the interest thereon is 90 days past due or where a provision exists in anticipation of loss, except: - where there is sufficient evidence that repayment in full, including all interest up to the time of repayment (including costs) will be made within a reasonable and identifiable time period, either from the realisation of security, refinancing commitment or other sources; or - where there is independent evidence that the balance due, including interest is adequately secured. Upon impairment the accrual of interest income based on the original terms of the claim is discontinued but the increase of the present value of impaired claims due to the passage of time is reported as interest income.
IPO	Initial Public Offering
IRBA	Internal Ratings Based Approach allows banks, subject to regulatory approval, to use their own estimates of certain risk components to derive regulatory capital requirements for credit risk across different asset classes. The relevant risk components are: Probability of Default ('PD'); Loss Given Default ('LGD'); and Exposure at Default ('EAD').
IRHP	Interest Rate Hedging Products
KPI	Key Performance Indicator
LCR	Liquidity Coverage Requirement
LDI	Liability Driven Investments
LGD	Loss Given Default ('LGD') is the expected or actual loss in the event of default, expressed as a percentage of Exposure at Default ('EAD').
LIBOR	London Inter-Bank Offered Rate
LLP	Limited Liability Partnership
Loan to deposit ratio	This is the ratio of loans and advances to customers as presented in the statement of financial position compared to customer accounts.
LTPD	Lifetime probability of default
MiFID II	Markets in Financial Instruments Directive II
MRA	Material Risk Assessment

MREL	Minimum Requirement for Eligible Liabilities
NI	Northern Ireland
NIM	Net interest margin
NPS	Net Promoter Score
OCI	Other comprehensive income
OneUK	Transformation programme launched in 2016, implemented and delivered during 2017. Cultural change and ways of working were key elements of this programme.
OTC	Over The Counter
PHI	Permanent Health Insurance
Pillar I	Sets out the rules for calculating minimum regulatory capital. It is a variable capital requirement based on the sum of operational, market and credit risk requirements. AIB UK Group must maintain, at all times, capital resources equal to or in excess of the amount specified.
Pillar II	This Supervisory Review Process requires supervisors to ensure each bank has a sound internal process in place to assess the adequacy of its capital based on a thorough evaluation of its material risks.
Pillar III	Pillar III sets out the required detailed disclosures of each of a bank's key risks
POCI	Purchased or originated credit impaired financial assets
PP	Prepayments
PPI	Payment Protection Insurance
PSD2	Payment Services Directive 2 effective from 13 January 2018
PRA	Prudential Regulation Authority
Probability of Default (PD)	Probability of Default. This is the likelihood that a borrower will default on an obligation to repay.
PwC	PricewaterhouseCoopers
RAROC	Risk Adjusted Return on Capital
RAS	Risk Appetite Statement
RCA	Risk and Control Assessment
Repo	A sale (and) repurchase agreement.
Reverse repo	A purchase of securities with an agreement to resell them at a higher price at a specific future date.
RFR	Risk Free Rate
ROE	Return on Equity
RPI	Retail Price Index
RWA (Risk weighted assets)	A measure of assets (including off-balance sheet items converted into asset equivalents e.g. credit lines) which are weighted in accordance with prescribed rules and formulas as defined in the Basel Accord to reflect the risks inherent in those assets.
Section 172(1)	Section 172(1) of the Companies Act 2006
Securitisation	The process of aggregation and repacking on non-tradable financial instruments such as loans and advances, or company cash flow into securities that can be issued and trade in the capital markets.
SID	Senior Independent Director
SICR	Significant increase in credit risk
SLP	AIB PFP Scottish Limited Partnership
SME	Small and medium-sized enterprises (SMEs) are businesses whose personnel numbers and financial results fall below certain limits.
SMR	Senior Manager Regime
SPPI	Solely Payments of Principal and Interest
Tier 1 capital	A measure of a bank's financial strength defined by the Basel Accord. It captures core Tier 1 capital plus other Tier 1 securities in issue, but is subject to deductions in relation to the excess of expected loss on the IRBA portfolios over the IFRS provision on the IRBA portfolios, securitisation positions and material holdings in financial companies.
Tier 2 capital	Broadly includes qualifying subordinated debt and other Tier 2 securities in issue, eligible collective impairment provisions, unrealised available for sale equity gains and revaluation reserves. It is subject to deductions relating to the excess of expected loss on the IRBA portfolios over the accounting impairment provision on the IRBA portfolios, securitisation positions and material holdings in financial companies.

Tracker mortgage	A tracker mortgage has a variable interest rate. The rate tracks the Bank of England (BOE) rate, at an agreed margin above the BOE rate and will increase or decrease within five days of an BOE rate movement.
UK ALCo	UK Asset & Liability Committee
UKCC	UK Credit committee
UKLM	AIB UK Loan Management Limited
UKRC	The AIB UK Group Risk Committee
UK Scheme	The AIB UK Group Pension Scheme
VaR	Value at Risk
VAT	Value Added Tax
Vulnerable loans	Loans where repayment is in jeopardy from normal cash flow and may be dependent on other sources.
WoW	Ways of Working
WTO	World Trade Organisation
3LOD	Three Lines of Defence