AIB Group (UK) p.l.c.

Annual Financial Report

For the year ended 31 December 2017

Company number: NI018800

AIB

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

2017 Performance highlights

2016 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. A reconciliation to the statutory view of performance is included in the Financial review on page 9 of this report.

Profitable and Efficient	Net interest margin (NIM) **1.9%** 1.7%	Banking net interest margin **3.0%** 3.0%	Sustained banking NIM in a highly liquid and competitive market. NIM increase of 21bps reflects reductions in intercompany balances with Parent.
	Cost income ratio **47%** 47%		OneUK transformation was completed in 2017. This will deliver a run rate reduction in staff costs of 10% in 2018.
	Profit before tax **£122m** £139m		Sustainable underlying profit before tax but impacted by credit losses in the year. Statutory profit before tax of £106m.
	Return on equity (ROE) **5.9%** 3.9%		Statutory ROE improved by 2% reflecting the increased profit after tax.

Strong Balance Sheet	Total capital ratio **16.3%** 17.0%	Leverage ratio **9.8%** 8.7%	Strong and stable capital and leverage position.
	Earning loans **£6.4b** £6.3b	Non-earning loans **£0.2b** £0.4b	Earning loans remain stable with a focus on improvement in returns but has been tempered by higher redemptions. Continued focus on the reduction in non-earning loans.
	Customer deposits **£9.0b** £8.7b	Liquidity coverage ratio **197%** 678%	Robust funding structure. Reduction in LCR reflects the reduction of intercompany funding in 2017.

Franchise	New lending **£1.8b** £1.5b	20% growth delivered, tangible results being achieved from our new strategy.
	Net promoter score **+34** +47	Transactional NPS has been affected by the branch closures in Northern Ireland.

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 growing UK specialist bank, servicing retail, 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 through the First Trust Bank brand.

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

Allied Irish Bank (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.

First Trust Bank (FTB)

FTB is a long established bank in Northern Ireland.

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 (UK FSG)

UK FSG assists customers in difficulty and ensures our non-performing book is within acceptable parameters.

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

There are four strategic pillars which 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.	Relationship NPS	A measure of our customers' relationship experience
		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.	Channel Trends	% of our active customers transacting digitally
		Transactional NPS	A measure of our customers' transactional experience
		Cost Income Ratio	Financial benchmark of efficiency
Risk & Capital	We are increasing the value of the business while maintaining a strong risk management framework, improved asset quality and robust capital levels. We offer value to our customers while consistently delivering a strong financial performance that paves the way for future development and addresses legacy challenges.	Risk Adjusted Return on Capital	A risk-based profitability measurement for analysing risk-adjusted financial performance
		Non-Performing Loan Exposures	Measures the credit quality of our loan stock
Talent & Culture	We ensure that we have the right talent, skills and capability within the organisation that support collaborative, accountable and trusted ways of working. We promote a culture of diversity and inclusion, where people can be at their best.	Gender Balance	Females as % of all management
		Engagement	Employee engagement relative to Gallup client population

Our People

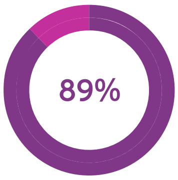
1,087
Employees (FTE)
At Period End

58%
Female

42%
Male

Employee engagement

Strong participation



Engaged outnumber actively disengaged

Actively disengaged **8%** Engaged **50%**

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

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Chairman's statement

"2017 has been an important year in the transformation of the Bank as we embarked on the 1st year of our 3 year strategy ... we have simplified our operations and are now more efficient and resilient ... and are positioned well to continue generating sustainable and growing profits."

Peter Spratt

Introduction

2017 has been an important year in the transformation of the Bank as we embarked on the 1st year of our 3 year strategy, at a time when there has been considerable political uncertainty which has seen the UK Government trigger Article 50 in March, and lose its majority following the general election in June.

The UK economy has slowed this year as households' real incomes and spending have been squeezed by inflation, now at its highest level for nearly six years. GDP growth continues to weaken, with further deterioration expected over the medium term. While employment growth has been strong this year, the persistence of weak productivity growth is a concern for the UK's growth potential in the years ahead.

Financial performance and business strategy

AIB UK Group has delivered an underlying profit before taxation of £122m, and statutory profit before taxation of £106m. Our new business lending continues to grow, we have simplified our operations and are now more efficient and resilient, as we continue to reduce our non-performing loans.

During 2017, we have re-shaped our distribution channels with a consolidation of branches, creation of business centres and upgrades to our digital capability, resulting in a more dynamic bank. Our focus on core customer segments which allows us to develop deep, long-term relationships, has gone really well and we will reap the benefits now and into the future.

Customers and staff

Our key brand value is to put our customers first and our purpose is to back our customers to achieve their dreams and ambitions. This is to be delivered by consistently providing exceptional customer experience through simple and innovative customer solutions.

We are now more sector focused, and are giving our customers more choice in how they want to bank with us, whether by traditional channels, or via our mobile app, our online presence or through the Post Office.

We have a clearly defined culture within the organisation with an ambition to work together in putting the customer first which is grounded in our four strategic pillars – Customer First, Simple & Efficient, Risk & Capital and Talent & Culture.

All of the changes that have taken place throughout the year could not have been achieved without the commitment and dedication of the management and staff throughout the organisation. I would like to thank everyone for their support, including our colleagues in our parent company.

In addition, we are preparing to publish our Gender Pay Gap in April. We are committed to fairness in all areas of diversity and we are being pro-active in addressing any issues that exist.

Board of Directors

We recognise that good governance supported by a strong culture is vital to the successful delivery of the Bank's strategy and a key part to our continued ability to grow, to deliver returns to our shareholders in a safe and sustainable way and to serve the interests of our customers and staff.

2017 was another busy year for the Board as we continued our journey to make sure we have appropriate governance for a growing bank operating in a heavily regulated environment. During 2017 we underwent a Third Party Governance Review which both confirmed the good progress we have made and challenged us to make our processes more effective. The review also recommended that the Remuneration Committee be dissolved, which was completed in December 2017, and to reduce the size of the Board to 8-9 people over time, which will be achieved during 2018.

There were a number of changes during the year as both Pauline Egan and Simon Turner stepped down as Directors and David O'Callaghan stepped down as Company Secretary. We thank them for their service and welcome Mark Bourke, Rachel Lawrence, Roger Perkin and Graham Buckland to the Board and Iain Hamilton as our Company Secretary.

I believe the Bank has a strong and highly committed Board with the mix of expertise, experience and character that the business requires to continue being successful in 2018.

Outlook

2018 promises to be another busy year as we continue focusing on providing exceptional customer experience, through delivering the benefits resulting from the actions taken in 2017, and on making AIB UK Group a great environment to work in. We do not under-estimate the difficulties and uncertainties facing the Bank from Brexit, from the market place in general and from the ongoing regulatory agenda, but I am confident we are addressing these issues pro-actively and are positioned well to continue generating sustainable and growing profits.

P. W. Spratt

Peter Spratt

Chairman
28 February 2018

Managing Director's review

"2017 represented a year of significant change for AIB UK as we implemented and delivered on the OneUK transformation programme."

Brendan O'Connor

Introduction

2017 represented a year of significant change for AIB UK as we implemented and delivered on the OneUK transformation programme. We made material changes to our distribution and support platform, investing in a new sustainable business model that, based on changing customer demands, will put us in the best place to continue to grow our business and compete successfully in our principal markets.

We have made our operations simpler and more efficient, refreshed and renewed the business and leadership capability in our distribution networks and implemented a sectoral strategy that has brought a sharper focus to our business acquisition activity.

Economic factors

UK economic growth has slowed in 2017, with latest projections showing a slowdown in the rate of growth from 1.8% in 2016 to a forecast of 1.5% in 2017, to a projected 1.4% in 2018. The European and world economies are showing signs of increasing economic momentum and growth while the UK is facing headwinds arising from the prospect of more subdued consumer spending activity as a result of higher inflation, Brexit-related uncertainty and dampened business investment growth.

CPI picked up from just 0.7% on average to 3% in the year due in large part to the impact of the weaker pound on import prices. The Bank of England increased the counter-cyclical capital buffer to constrain consumer debt levels. Wage growth continues to be slow despite the unemployment rate being at its lowest rate since 1975.

Performance in the key sectors for AIB UK has been mixed in 2017. The Manufacturing and Hospitality sectors have been relatively robust, with Exporters benefitting from the impact of a stronger than expected Eurozone recovery and a weaker pound, factors which are also driving a strong performance in the Tourism industry. Commercial construction weakened in the latter half of 2017, in part due to uncertainty as to the impact of Brexit on demand for commercial and office space, particularly in London and the South East.

The Monetary Policy Committee voted in November to increase interest rates by 0.25%, the first such increase in a decade and guided that any future rises will be limited and gradual. Further base rate increases are expected to be positive for the earnings of UK banks, particularly those banks with a high proportion of current account funding.

Customer first

Putting our customers first is at the heart of all we do. Our purpose is simple and straightforward – we back our customers to achieve their dreams and ambitions.

During 2017, we restructured ourselves to take advantage of our significant capability, insight and experience in our chosen sectors. With our new 'network framework' of regional expertise, combined with centralised centres of excellence, we can now bring that capability, insight and experience to bear on customer relationships and transaction opportunities across the entirety of our distribution network.

In Northern Ireland, we brought professional business banking closer to our customers in 2017. We established four new regional business centres, two satellite offices and a centralised small-business centre, ensuring 98% of Northern Ireland's business activity is within 30 miles of an FTB business location.

In parallel, our distribution model for personal customers was re-shaped to provide broader, multi-channel access to simple products and services at a lower cost to serve. We rationalised our retail branch footprint in Northern Ireland to reflect changing customer behaviours in how they wish to bank and engage with our products and services. At the same time we entered into a new agreement with the Post Office that now allows our customers to carry out over the counter transactions at over 11,500 cash counters throughout the UK.

We have refreshed our residential mortgage proposition, introducing new products, streamlining our customer application processes and re-entered the intermediary mortgage market in Northern Ireland.

We continued to invest in and upgrade our digital offerings adding new and useful functionality to digital channels. Our digital enablement strategy is led by mobile app development, with incremental improvements to our personal offering planned over the coming months and years. Migration to a new Digital Business Banking platform is in train and when launched will supplement and sustain our business and corporate customer relationship management model further.

We are committed to keeping our business models under review and to adapt them as our customer requirements grow and change over time. In any review we will continue to keep our commitment to 'customer first' behaviours and values first and foremost in our thinking.

Simple & efficient

In 2017 we transformed the Operations and Support model for our UK business model, centralising many support functions and activities and concentrating our expertise to facilitate best practice in service delivery and customer responsiveness. The introduction of scanning and workflow management solutions has reduced lead times for service delivery and improved information control.

The focus for 2018 is to build further on our new and more efficient business and support platform, further increasing simplicity and efficiency across the Bank and improving the customer experience across our key customer journeys. We want to make it easy and friction-free for our customers to do business with us and easier for us to support our customers as they seek to grow their businesses.

Risk & capital

A programme to improve our credit management processes has reduced manual activities, delivered new capabilities and is contributing to a more robust risk management process. It has also ensured our compliance with new impairment assessment (IFRS9) regulations through the delivery of risk models, business process changes and new impairment calculation and reporting. These enhancements will deliver more efficient ways of working that will enable Business and Credit resources to focus on more value-add activities while managing greater volumes.

We made great progress in embedding RAROC, a measure of risk-adjusted return on capital, across our entire UK business in 2017 thereby ensuring we have the appropriate balance between the risk we take on the balance sheet and the reward we earn for doing so. Our use of RAROC as a discipline and tool for making pricing decisions underpins our goal of achieving well managed asset growth in our business.

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"

Talent & culture

Delivering an outstanding customer experience is only possible through a highly committed and professional workforce. We continue to support and develop our people so that they are engaged, customer focused and highly motivated.

During 2017, we undertook a significant organisation restructure, reducing our headcount and realigning internal talent with capability to ensure we had the right people in the right places, doing the right things. We recruited selectively to add talent in business units that are key focus areas and priorities for AIB UK. We also refreshed the AIB UK senior management team, bringing in a number of experienced leaders from outside the firm to supplement our internal talent at the highest level of the company.

We set ourselves a cultural ambition, the roots of which are grounded in the principles of high performance and personal accountability. We are committed to fostering the collaborative mind-set that we need as a business in order to deliver for our stakeholders and ensuring our customers are always front of mind and at the core of everything we do.

We made progress in 2017 in furtherance of our ambition to be a more diverse organisation, one that encourages and is welcoming of diversity in all its forms. We have established multiple Employee Resource Groups, such as *Pride Matters* and *Women Matters*, to create social outlets, provide support, raise awareness, lobby for change and drive improvements on employment practices related to the specific topic. We have signed up to the Women in Finance Charter, which aims to build a more gender balanced workplace and we are aiming to achieve a target of 50% female managers by 2020. It's an ambitious target and we have a way to go to reach that level of female management representation but, as is the case with all our diversity initiatives, we are committed to achieving our goals.

Regulatory and other evolving issues

The Bank continues to operate in a demanding regulatory and political environment. Following the result of the EU referendum in 2016, in March 2017 the Government triggered Article 50, giving notice of the UK's intention to leave the EU. Formal negotiations between the EU and the UK regarding the terms of the UK's exit concluded in December and have now moved on to trade negotiations. The Brexit negotiations coupled with the Government losing its majority in the June general election continues to increase market and customer uncertainty.

The regulatory environment continues to develop and the Bank is and has responded to the following key areas:

Conclusion

To be able to back our customers to achieve their dreams and ambitions, we need to push the boundaries as it relates to the customer experience we deliver. We have no right to a customer's business, we have to earn that right and renew that right every time we interact with our customer. The work we completed this year means we now have the right business platform in place to succeed and we can delve deeper into our processes and our ways of working so that we can build on and leverage that platform, delivering brilliant customer journeys and customer experiences that have our customers at the heart of everything we do.

Brendan O'Connor

Managing Director
28 February 2018

Financial review

"I am pleased to be reporting another year of sustained profitability for AIB UK. A strong performance in a challenging economic and political environment"

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 Alternative Performance Measures ('APMs'). A description of AIB UK Group's APMs and their calculation are set out on page 18.

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 on page 48.

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

Summary income statement for the year ended December	**2017** **£m**	2016 £m
Net interest income	**210**	205
Fees, commissions and other income	**59**	58
Underlying operating income	**269**	263
Total costs	**(127)**	(124)
Underlying operating profit before provisions	**142**	139
Credit provisions	**(21)**	(1)
Profit on sale of business	**1**	1
Underlying profit before tax	**122**	139
Profit on sale of assets	**5**	22
Voluntary severance	**(19)**	(2)
Customer redress	**2**	5
FSCS levy	**2**	1
Property strategy costs	**(1)**	(3)
Reallocation of group charges	**(5)**	5
Payment protection refund	**-**	3
Total underlying adjustments	**(16)**	31
Statutory profit before tax	**106**	170
Tax	**(4)**	(104)
Statutory profit after tax	**102**	66

Summary balance sheet as at 31 December	**2017** **£m**	2016 £m
Earning gross loans	**6,435**	6,323
Non-earning gross loans	**202**	375
Provisions	**(125)**	(227)
Net loans	**6,512**	6,471
Other assets	**5,323**	6,903
Total assets	**11,835**	13,374
Customer accounts	**9,034**	8,726
Other liabilities	**1,041**	2,945
Shareholders' equity	**1,760**	1,703
Total liabilities and shareholders' equity	**11,835**	13,374

Income Statement Review

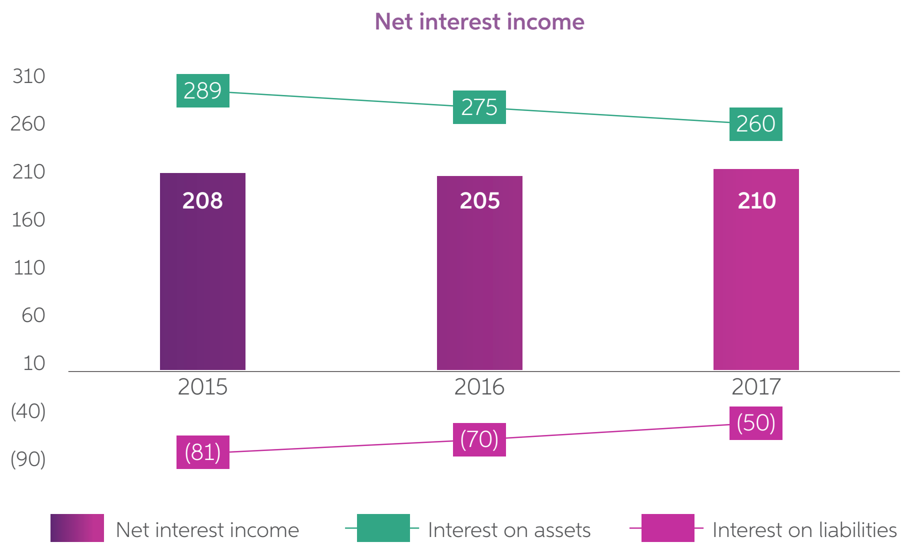
Full year 2017 underlying profit before tax of £122m is down £17m (12%) on 2016, reflecting higher credit provisions. Underlying operating profit of £142m is up £3m (2%) on 2016 and represents continued strong performance in a year of significant change for the Bank.

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

Underlying operating income	NIM	Banking NIM
£269m	**1.9%**	**3.0%**
£263m	1.7%	3.0%

Net interest income

	2017 £m	2016 £m	% change
Net interest income	**210**	205	2
Average interest earning assets	**11,062**	12,169	-9
	%	%	change
NIM	**1.90**	1.69	0.21
Banking NIM	**2.98**	2.96	0.02



Net interest income increased by £5m (2%) compared to 2016, driven by a reduction in the cost of deposits relating to a decrease in term deposits, a decrease in intercompany funding from the parent resulting in lower interest income and expense and a market driven tightening of lending margins.

Net interest income (continued)

	Year ended 31 December 2017			Year ended 31 December 2016		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Assets	£m	£m	%	£m	£m	%
Loans and receivables from customers	6,631	223	3.36	6,543	227	3.47
Balances with central banks & other interest earning assets	4,431	37	0.84	5,626	48	0.86
Average interest earning assets	11,062	260	2.35	12,169	275	2.26
Non interest earning assets	984			1,105		
Total assets	12,046	260		13,274	275	
Liabilities & Equity						
Customer accounts	6,504	26	0.39	6,263	33	0.53
Other interest bearing liabilities	765	24	3.17	2,464	37	1.50
Average interest bearing liabilities	7,269	50	0.69	8,727	70	0.80
Non-interest bearing liabilities	3,057			2,861		
Equity	1,720			1,686		
Total liabilities & equity	12,046	50		13,274	70	
Net interest income	11,062	210	1.90	12,169	205	1.69
Banking net interest income	6,631	197	2.98	6,543	194	2.96

Average asset yield of 235bps was 9bps higher than in 2016. Although customer yield decreased in 2017 compared to 2016, the mix of assets changed to a higher percentage in customer loans coupled with a reduction in lower yielding intercompany funding from the parent.

Average interest earning assets of £11.1b reduced from £12.2b in 2016 mainly due to the reduction in intercompany funding from the parent offset by a £0.1b increase in customer loans and a £0.4b decrease in balances with central banks.

Average cost of funds of 69bps was 11bps lower than in 2016 mainly due to a reduction in higher yielding term deposits and an increase in non-interest bearing current accounts. The mix of liabilities changed to a higher percentage in non-interest bearing (2017: 43%, 2016: 34%) as a result of the reduction in intercompany funding from the parent.

Underlying fees, commissions and other income

Other income remained stable at £59m. Customer account fees were marginally lower (2017: £21.8m, 2016: £22.5m) as a result of the changes implemented by Competition Markets Authority (CMA) in 2017. This trend is likely to continue in 2018.

Total costs and cost income ratio ('CIR')

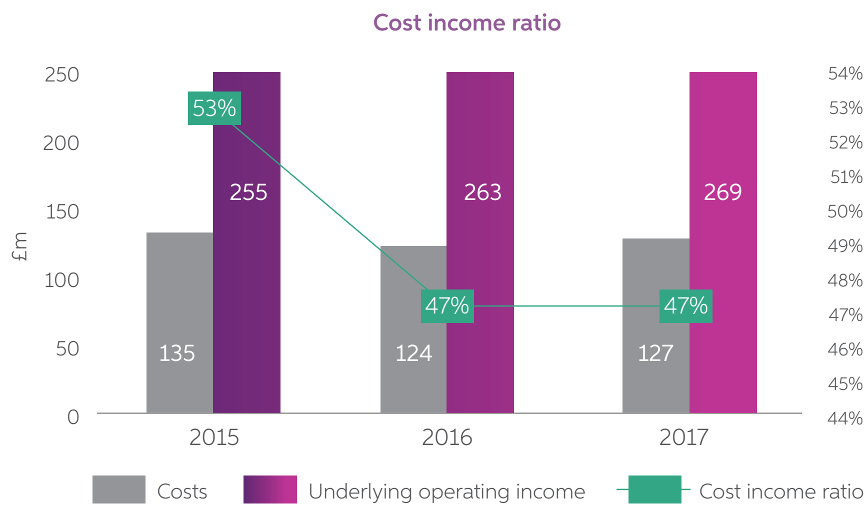
Total underlying costs	CIR
£127m	**47%**
£124m	47%

Total underlying costs	2017 £m	2016 £m	% change
Staff costs	**67**	65	3
General & administrative costs	**57**	58	-2
Depreciation, impairment and amortisation	**3**	1	100
Total underlying costs	**127**	124	2
Staff numbers at period end (FTE)	**1,087**	1,317	17
Average staff numbers	**1,218**	1,349	10

Total underlying costs increased by £3m (+2%) compared to 2016.

Staff costs have been affected by a change in discount rates used in relation to the expected return on pension assets (2017: 2.7% and 2016: 3.9%) resulting in an increase of pension cost of £5m in 2017.

During 2017 AIB UK underwent a restructuring programme (OneUK) and delivered a run rate reduction in staff costs of c£7m (10% decrease on 2017 staff costs), the full effect of this reduction will be seen in 2018.



Credit provisions

The overall net provision charge of £21m in 2017 compares with an overall net credit provision charge of £1m in 2016. The Bank suffered two significant unrelated credit provisions in 2017, contributing to a new to impaired charge of £56m (2016: £10m) and a cost of risk of 86bps (2016: 15bps).

Balance Sheet Review

Assets

Earning loans	Non-earning loans	New lending	Provisions
£6.4b	**£0.2b**	**£1.8b**	**£0.1b**
£6.3b	£0.4b	£1.5b	£0.2b

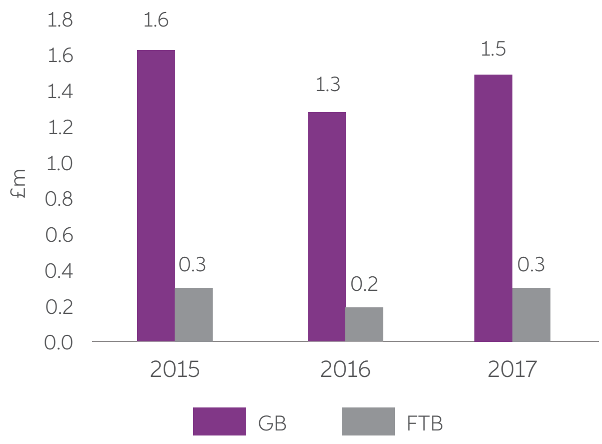
Assets	2017 £m	2016 £m	% change
Gross loans to customers	**6,637**	6,698	-1
Provisions	**(125)**	(227)	-45
Net loans to customers	**6,512**	6,471	1
Cash and balances at central banks	**3,583**	3,458	4
Intercompany	**461**	2,127	-78
Other assets	**1,279**	1,318	-3
Total assets	**11,835**	13,374	-12

Earning loans

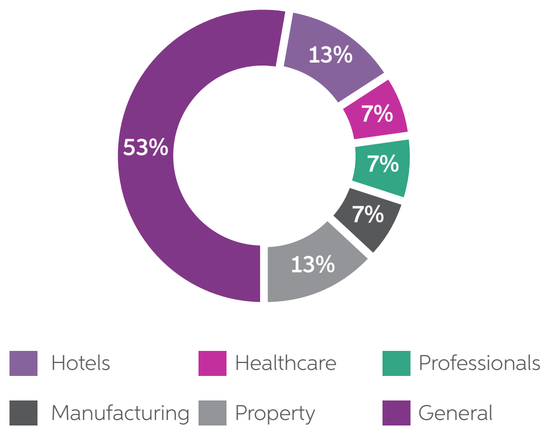
Earning loans increased £0.1b compared to December 2016. Targeted new lending of £1.8b has led to the growth in the earning book but has been tempered by higher redemptions (£1.7b) which were elevated in comparison to 2016. This increase can be attributed to high levels of liquidity in the market coupled with a targeted approach to refinancing which is aligned to risk adjusted return on capital.

New lending and sector strategy

New Lending Trend



GB New Lending by Sector



The Bank achieved new lending of £1.8b, £0.3b higher (+20%) compared to 2016 despite challenging economic and market conditions. Growth in the customer lending book has been achieved without compromising asset quality and is a result of the implementation of our customer acquisition strategy.

47% of GB new lending target in 2017 was in our chosen sectors, reflecting a positive result for our sector strategy.

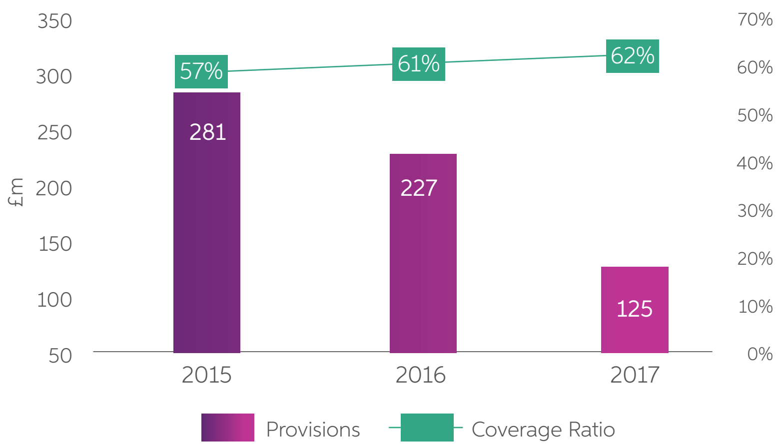
Intercompany

Historically AIB UK was a net borrower from the parent and during that period interest rate risk mismatch was managed by borrowing long term funding (greater than 1 year) from the parent. This net borrowing position with the parent has reversed over the past 3 years with a liquidity surplus now being maintained in the central bank. As a result of this during 2017 the Bank moved to managing interest rate risk using derivatives rather than cash positions and has therefore reduced the intercompany positions with the parent.

Provisions and improving credit quality

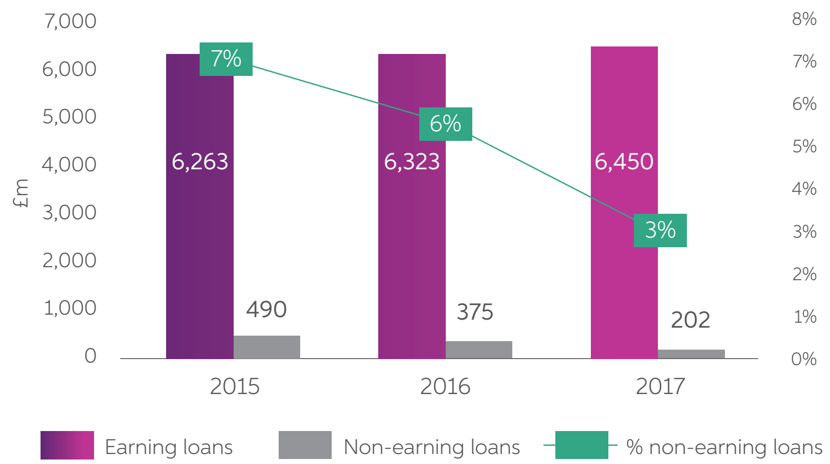
Balance sheet provisions have reduced by £102m due to utilisation of provisions as part of sustainable solutions for customers and sales of non-earning portfolios as part of our deleveraging strategy.

Provisions and coverage ratio



Non-earning loans as a percentage of the overall loan book continues to decline.

Earning and non-earning loans



Liabilities & equity

	2017 £m	2016 £m	% change
Customer accounts – current accounts	**5,707**	5,239	9
Customer accounts – deposits	**3,327**	3,487	-5
Intercompany	**469**	2,251	-79
Other liabilities	**572**	694	-18
Total liabilities	**10,075**	11,671	-14
Shareholders' equity	**1,760**	1,703	3
Total liabilities and equity	**11,835**	13,374	-12
Loan to deposit ratio	**72%**	74%	-2

Total customer balances increased by £0.3b (4%) in the year despite the closure of 15 branches in FTB.

The mix profile continued to change in 2017 with an increase in current accounts of £0.5b (9%) partly offset by a reduction in deposits £0.2b (5%) as higher yielding deposits in the back book were re-priced.

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, requires capital to support them.

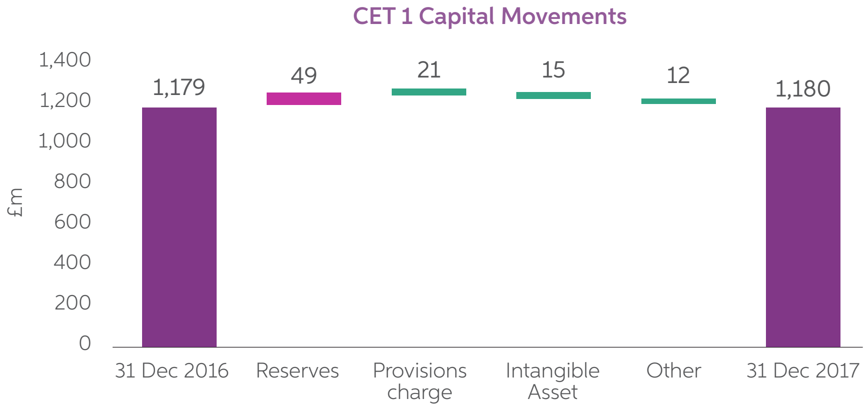
The level of capital held by AIB UK Group is influenced by the minimum regulatory requirements of the Prudential Regulation Authority ('PRA'). The adequacy of AIB UK Group's capital is assessed by comparing available regulatory capital resources with capital requirements expressed as a percentage of risk weighted assets. The minimum capital requirement under the Capital Requirements Regulation (575/2013) is a total capital (to risk weighted assets) ratio of 8% and Tier 1 capital (to risk weighted assets) 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%.

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.

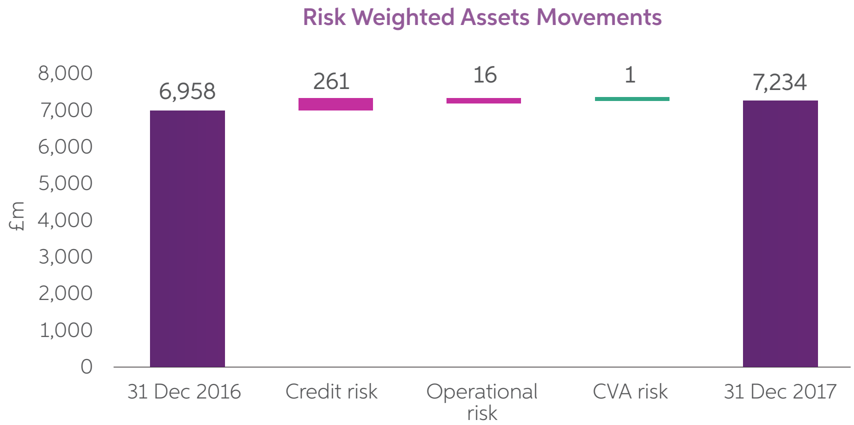
The following tables show AIB UK Group's capital resources and capital base at 31 December 2017 and 31 December 2016.

	2017 £m	2016 £m
Shareholders' equity and total capital resources	**1,760**	1,703
CET 1 capital	**1,180**	1,179
Total risk weighted assets	**7,234**	6,958
	%	%
CET 1 capital ratio	**16.3**	17.0

Capital (continued)



2017 CET 1 of £1,180m was broadly consistent with 2016. Significant movements relate to the inclusion of 2016 profit (£64m) less pension charge to reserves (£14.9m), offset by 2017 provision charge and an increase in intangible assets during the year. No profits for 2017 have been included, if these profits were included the CET 1 capital ratio would be 18%.



Risk weighted assets ('RWAs') have increased by £276m during the year reflecting an increase in corporate customer performing exposures (£365m) resulting from a change in the balance sheet mix between corporate and retail exposures and a reduction in exposures in default (£120m) as a result of portfolio sales and write offs. Operational risk RWAs increased as a result of increased profits.

IFRS 9

IFRS 9 is effective as of 1 January 2018 and replaces current impairment rules. The estimated impact of implementing IFRS 9, including the impact on Risk Weighted Assets and regulatory deductions, would be to reduce AIB UK Group's fully loaded CET 1 ratio by 0.2% or an expected CET1 ratio reduction from 16.3% to 16.1%. AIB UK Group intends to apply transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds per Regulation (EU) 2017/2395 of the European Parliament and of the Council. After applying IFRS 9 transitional arrangements, the expected AIB UK Group consolidated CET 1 ratio as measured under CRR transitional rules would increase from 16.3% to 16.4%.

Liquidity

AIB UK Group has a strong funding position. The loan to deposit ratio was 72% at 31 December 2017 (2016: 74%). 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% (2016: 65%) of its total liabilities and shareholders' equity. Debt funding via Tenterden Funding p.lc., AIB UK Group's mortgage backed securitisation, was wound down in 2017 (2016: £59m).

Under CRD IV, the minimum Liquidity Coverage Requirement ('LCR') requirement was introduced from 1 January 2015 at 60%, rising to 100% by 1 January 2018. The Bank's LCR is significantly in excess of these minimums at 197% (2016: 678%), the significant decrease in 2017 relates to the reduction of short term intercompany funding from the Bank's parent.

The Bank's application for inclusion in the Bank of England's Term Funding Scheme was successful. The Bank plans to draw down these funds in early 2018 prior to ending of the scheme. These funds can be drawn against the existing pre-positioned collateral at the Bank of England, thereby reducing the capacity available for the Discount Window Facility.

Further details are set out in the Liquidity Risk section of the Risk Management report on page 23.

Rachel Lawrence

Chief Finance Officer
28 February 2018

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 asset yield	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 assets;** the proceeds from the sale of AIB UK Group's ownership of Vocalink in 2017 and Visa Europe in 2016. • **Voluntary severance;** the costs relating to the reduction of employees in relation to the OneUK programme. • **Customer redress;** movements in provisions held in relation to customer restitutions. • **FSCS levy;** annual levy payable by authorised financial services firms to fund customer compensation scheme. • **Property strategy costs;** property exits in Northern Ireland relating to the OneUK restructuring programme. • **Reallocation of group allocations;** certain Group allocations relating to 2016 reallocated from 2017 back to 2016. • **Payment protection refund;** one off credit in 2016.
Cost income ratio	Total underlying operating expenses divided by underlying total 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.

Risk management report

Introduction

Risk is inherent in the provision of financial services and AIB UK Group assumes a variety of risks in undertaking its business activities. Risk is defined as any event that could damage the core earnings capacity, and quality of AIB UK Group, increase earnings or cash-flow volatility, reduce capital, cause customer detriment, 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 well managed growth. AIB UK Group has adopted a broad set of risk management principles reflecting its risk philosophy and culture, and articulating the high standards against which risk-taking decisions are made. The key principles are:

Operate within a Risk Appetite Statement approved by the Board	Take intelligent risk, with shared responsibility between Business and Risk managers, while maintaining individual accountability	Be disciplined and vigilant in times of growth when risk of loss is not as evident as in times of stress	Take on only what can be measured, recorded and managed within its capabilities

In keeping with the Parent Group, AIB UK Group has adopted an Enterprise Risk Management approach to identifying, assessing and managing risks, the core elements of which are set out in the AIB UK Group's risk management framework, summarised below, and have been in operation throughout the reporting period.

Role of risk management

AIB UK Group's strategy and Brand Values are critical enablers underpinning the strategic business objectives. To facilitate the successful pursuit and execution of the business strategy, the role of risk management is to assist in:

- Protecting the business franchise;
- Delivering sustainable profitability;
- Optimising risk taking at the appropriate return within the approved risk appetite; and
- Protecting the customer.

Strategic risk objectives

The strategic risk objectives which support delivery of the strategic business objectives are to:

- Formulate AIB UK Group's risk appetite (defined as the maximum amount of risk that AIB UK Group is willing to accept or tolerate to deliver on its strategic and business objectives);
- Ensure that the risk profile and business and financial plans are consistent with risk appetite;
- Promote a strong risk culture throughout the organisation;
- Maintain the risk management architecture of AIB UK Group, ensuring that it has robust processes in place to identify, assess, monitor, manage and report its material risks;
- Ensure AIB UK Group has a strong risk governance and internal control framework in place;
- Ensure, through its risk assessment techniques, that it has sufficient resilience to withstand a range of adverse scenarios;
- Support improvements in operational and strategic decisions throughout AIB UK Group; and
- Foster an environment of continuous improvement and learning from mistakes.

Risk governance

The Board has ultimate responsibility for the governance of all risk taking activity in AIB UK Group. The Board has delegated a number of risk governance responsibilities to various committees shown in figure 1 below. The role of the Board, the Board Audit Committee, the Board Risk Committee and the Nomination Committee is set out in the Corporate governance report on pages 25 to 31.

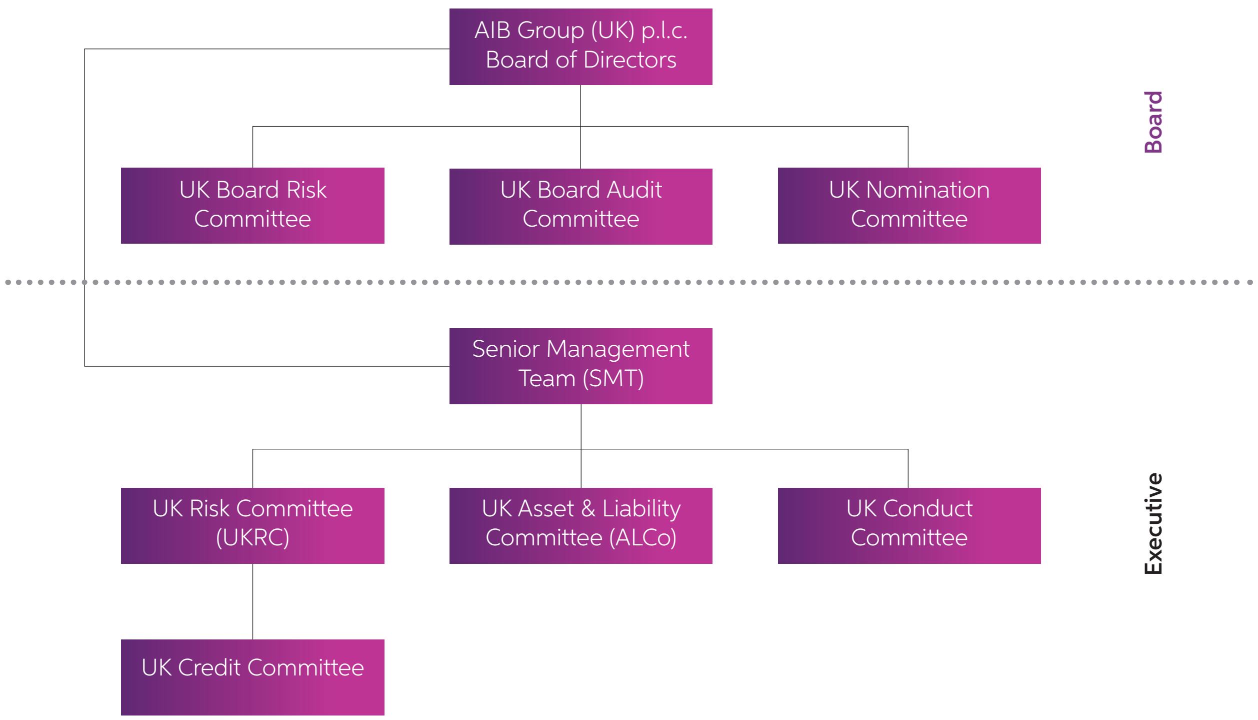


Figure 1 – Risk Governance

UK Senior Management Team ('UK SMT')

The UK Senior Management Team comprises the senior executive managers of AIB UK Group and manages the strategic business risks. It executes the business strategy within which the risk management function operates. Chaired by the Managing Director and includes the heads of all AIB UK Group's key operating units.

UK Risk Committee ('UKRC')

UK Risk Committee is responsible for governance of all risks in AIB UK Group. Chaired by the Chief Risk Officer, the committee is tasked with ensuring that the risks within AIB UK Group are clearly understood, reported and action plans approved to manage or mitigate such risks, within agreed risk appetite.

UK Asset & Liability Committee ('UK ALCo')

UK Asset & Liability Committee is chaired by the Chief Financial Officer and tasked with decision-making in respect of AIB UK Group's balance sheet structure, pricing, capital, liquidity, the management of the net funding, and market risk positions held with Parent Group.

UK Conduct Committee

The UK Conduct Committee oversees AIB UK Group's conduct risk management and promotes and supports a customer centric ethos and culture across the UK Bank. It is chaired by the Head of Customer Advocacy and focuses on ensuring that AIB UK Group treats its customers openly and fairly, conducts business with its customers in a professional manner and consistently adheres to the Brand values.

UK Credit Committee

UK Credit Committee ('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. UKCC is chaired by a senior manager in the UK Credit Team and includes representatives of UK business lines as well as risk.

Three lines of defence

In line with the Parent Group policy, AIB UK Group operates a 'three lines of defence' approach to risk management activities. Under the three lines of defence model, primary responsibility for risk management lies with business line management. The Risk Management function together with the Compliance function provide a second line of defence, providing independent oversight and challenge to business line managers. The third line of defence is the Group Internal Audit function which provides independent assurance to the Board Audit Committee on the effectiveness of the system of internal control.

Risk Appetite

Risk appetite is defined as the maximum amount of risk that AIB UK Group is willing to accept or tolerate to deliver on its strategic and business objectives. AIB UK Group's Risk Appetite Statement has been approved by the Board and is aligned to the Parent Group's risk appetite. The Risk Appetite is defined across all of AIB UK Group's material risks and is expressed both qualitatively and quantitatively, which are embedded throughout the business.

Material risk assessment ('MRA')

AIB UK Group undertakes a comprehensive top-down process on an annual basis to identify and assess its principal risks and uncertainties, and ensure that threats are being appropriately managed.

The MRA identifies and assesses the most material risks facing the Group in terms of their likelihood and impact. Other assessments of risk are undertaken, as required, by business areas, 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.

As well as identifying Material Risks, the MRA is a key input into:

- The Risk Appetite Statement, informing decisions around the Bank's tolerance for risk in pursuit of its business objectives;
- Business Planning and Forecasting, including stress testing, creating understanding of the key risks to the achievement of the Bank's strategic and financial objectives;
- The Bank's frameworks and policies for managing and mitigating risk;
- Risk reporting, in the form of the monthly CRO Report and quarterly Material Risk Review;
- The Internal Capital Adequacy Assessment Process ('ICAAP') and Internal Liquidity Adequacy Assessment Process ('ILAAP') in determining how much capital and liquidity the Bank should hold commensurate with its risk profile.

Material Risks	Mitigants
Business risk	
Economic and political environment There is a risk of political and economic uncertainty, including Brexit, curtailing investment.	AIB UK Group takes a measured approach to growth which is reflected in financial plans, it also carries out sensitivities and takes into account macroeconomic factors when setting planning assumptions and stress testing.
Competitive environment AIB UK Group faces significant market liquidity and competition. Customer demands continue to increase, particularly for digital capability, while AIB UK Group's competitors advance their propositions.	AIB UK Group is focused on the benefits of the digital agenda and is ensuring a clear and well marketed customer proposition.

Material Risks	Mitigants
Strategy execution A significant transformation change programme that was undertaken across AIB UK Group in 2017 carries execution risk.	The transformation programme is now significantly completed with robust risk controls in place over the remainder.
Business planning Significant market liquidity and competition can result in AIB UK Group incurring higher than planned redemptions of customer loans.	AIB UK Group's clear and attractive customer proposition seeks to protect customer relationships against competition.
Regulatory and compliance	
Regulatory compliance Complexity and intensity of regulatory oversight in the banking system remains very high. The Group is subject to supervision by several regulators.	The Compliance function provides regular reports to the UK Risk Committee and the Board Risk Committee.
Regulatory change The volume of regulatory change will be significant during 2018.	Project plans are closely monitored to minimise the risk of non-implementation by the due dates.
Operational risk	
Process and controls Operational risks arise from inadequate or failed internal processes, people and systems, or from external events.	An enterprise wide Operational Risk Management framework is in place, supported by a comprehensive suite of policies and procedures, together with controls to test adherence.
Outsourcing AIB UK Group continues to have significant dependencies on the Parent Group for shared systems and services.	AIB UK Group assesses and monitors its dependence on the Parent Group for the outsourcing of its various systems and services on an ongoing basis.
Cyber Cyber threats pose significant risk to the banking industry.	A new IT Risk Framework has been implemented in line with the National Institute of Standards & Technology framework. Cyber defence capabilities are continually reviewed and adapted.
Anti-money laundering, counter terrorism financing, sanctions and fraud Focus from international law enforcement continues through, for example, the 4th EU Money Laundering Directive.	A comprehensive suite of systems and processes is in place to identify and prevent potentially fraudulent activity. Systems and processes are regularly tested and updated.
People and culture risk	
Recruitment and retention AIB UK Group cannot guarantee it will be able to attract and retain highly skilled and qualified personnel in a highly competitive market. Failure by the Parent Group and AIB UK Group to staff its day-to-day operations appropriately could have an adverse effect on its results, financial condition and prospects.	A programme is in place to develop the succession plans for critical roles throughout the organisation. AIB UK Group has a strong commitment to investing in training and continued personal development to build capability. Employee engagement is surveyed at least annually through Group-wide staff surveys and team based action plans.
Culture Inadvertent or intentional behaviours by employees that are contrary to the Bank's strategy, culture and values could impact on business or financial prospects.	AIB UK Group has a clearly articulated corporate culture to enable a sustainable future for the Bank, its customers and its people.

Material Risks	Mitigants
Conduct risk	
Poor customer outcomes The risk that inappropriate action or inaction by AIB UK Group can cause poor or unfair outcomes for its customers, and potential market instability. Failure to assess and meet customer needs adequately throughout the customer lifecycle; failure to communicate transparently and simply, and if we do get it wrong, failing to react appropriately.	AIB UK Group operates to the Group Conduct Risk Framework which outlines a set of principles that guides daily decisions with customers and colleagues. AIB UK Group has an established approval process in place for all new products, or changes to the characteristics of existing products, which identifies and assesses all related risks to ensure they are mitigated.
Capital adequacy risk	
Meeting capital requirements Regulators can call upon the industry, or firms, to hold higher levels of capital in the event of concern over the adequacy of current capital held. Regulatory change may affect capital requirements, including through the implementation of IFRS9, or changes to capital buffers that might be applied by national or international regulators.	Close monitoring of actual capital ratios to ensure they comply with both regulatory and internal capital requirements, and are well positioned to meet future requirements. Under the ICAAP, stress testing is undertaken at least annually to assess whether AIB UK Group holds sufficient capital under different macro and internal scenarios. AIB UK Group has put in place a detailed Resolution & Recovery Plan with clear steps and management actions that would be implemented if certain trigger events occurred.
Funding and liquidity risk	
Meeting liquidity and funding obligations AIB UK Group could be subject to a sudden and significant withdrawal of customer funds. In an extreme stress, the wholesale markets can become less liquid which might impact the Parent Group's ability to improve AIB UK Group's liquidity position.	AIB UK Group's liquidity position is largely supported by a well spread and stable customer deposit base. A Contingency Liquidity Plan is in place to enable AIB UK Group to survive in liquidity crisis situations. Management have a number of actions available to them. In addition, the Parent Group provides a treasury function to AIB UK Group and has access to the wholesale market to raise funds if required.
Market risk	
Market fluctuations AIB UK Group is exposed to market risk through interest rates and, to a lesser extent, foreign exchange rates, and risk factors arising from the composition of the Group's customer offering and related Treasury hedging activities. Changes in interest rates affect the Group's earnings by altering interest rate-sensitive income and expenses, affecting its net interest income.	AIB UK Group Treasury transfers the aggregated risk positions to the Parent Group, thereby ensuring that any residual market risk is very low. Market risk is assessed using Value at Risk and stress testing measures. Interest rate repricing gaps and sensitivities to various risk factors are measured and reported on daily. AIB UK Group is not mandated to run any Trading Book risk.

Material Risks	Mitigants
Credit risk	
Asset quality deterioration Credit risk is the risk that a customer or counterparty will be unable or unwilling to meet a commitment that it has entered into. AIB UK Group encounters credit risk from lending activities to customers but also from guarantees, derivatives and securities. Any adverse changes in the customers' internal or external environment may lead to changes in the credit quality and/or behaviour of the customers or third parties that would reduce the value of the assets and may give rise to a loss for AIB UK Group thereby impacting profitability.	The Group Credit Risk Framework is applied in AIB UK Group and is supported by Group and UK credit policies. Credit grading, scoring and monitoring systems facilitate the early identification and management of any deterioration in loan quality. There are clearly articulated levels of authority to make lending decisions. Credit risk monitoring is undertaken to provide timely and relevant information to the appropriate management level to enable informed decisions to be taken. UKRC reviews monthly credit risk reports that cover exposures and concentrations, as well as key credit risk indicators such as grade movements, provision trends and forecasts, delinquency information, significant credit case or portfolio developments. The Board Risk Committee receives quarterly presentations on credit risk and on the key dynamics within the credit portfolios. The Board receives a monthly risk appetite limits report which monitors a number of credit risk metrics. AIB UK Group uses various approaches to help mitigate risks relating to individual credits, including transaction structure, collateral and guarantees. AIB UK Group maintains guidelines on the acceptability of specific classes of collateral. The principal collateral types for loans and receivables are: • charges over business assets such as premises, inventory and accounts receivables; • 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.
Credit concentration risk Credit concentration risk arises where any single exposure, or group of exposures, with common risk characteristics has the potential to produce large losses relative to AIB UK Group's capital, total assets, earnings or overall risk level.	AIB UK Group manages credit concentration risk through the Large Exposures Policy, and it is also considered as part of the ICAAP stress testing. The Board receives a monthly report highlighting any key exceptions to AIB UK Group's Large Exposures Policy, as well as the developing trends in grade migration, delinquency trends and provisions outlook.
Lower quality loans 'Criticised loans' have deteriorated in quality and are higher risk than the portfolio generally giving rise to higher risk of loss to AIB UK Group.	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 Financial Solutions Group is a team dedicated to the management of vulnerable loans, and is resourced by experienced restructuring and recovery staff. Any restructuring of loans follows a rigorous approval process to ensure that the outcome is fair and appropriate for both the customer and AIB UK Group.

Corporate governance report

Corporate governance arrangements and practices

During 2017 the Bank adopted a Group Subsidiary Governance Framework ('Framework') which covers the leadership, direction and control of AIB Group plc and its subsidiaries. This Framework reflects UK and Irish company law and EU best practice standards and ensures that organisation and control arrangements are appropriate to the broader group's strategy.

Our own 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 Senior Management Team ('SMT');
- 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 developed its own governance framework, with reference to the UK Corporate Governance Code which is appropriate to a company of our nature and size.

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 plans under the Bank's Internal Capital Adequacy Assessment Process ('ICAAP') 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.

A total of 12 Board meetings were held during 2017 (2016: 15). The Non-Executive Directors also met on several occasions in the absence of the Executive Directors.

The various roles within the Board and the roles of the executive directors, SMT 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 the proper induction and ongoing training for all).

Deputy Chairman/Senior Independent Director ('SID')

Available to both shareholders and staff 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 SID include Senior Manager's Regime ('SMR') accountability for both Speak Up and the external whistleblowing hotline.

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

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

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

SMT
The most senior executive committee of the Bank accountable to the Managing Director. Subject to financial and risk limits set by the Board the SMT 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 SMT 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 at the close of business on 31 December 2017 were independent. Notwithstanding each of Mark Bourke and Tom Foley's designations as non-independent under the UK Corporate Governance Code, the Board is satisfied that they both exercise independence of thought and action in fulfilling their duties.

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 Parent's 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.

Third party governance review

During 2017 we conducted a governance review with Grant Thornton to agree an appropriate governance structure for a bank at our stage of development, the main conclusions of this review (all of which the Board adopted) were:

- to gradually reduce the size of the Board to eight as Directors reach the end of their current terms of office;
- to refocus the Nomination & Corporate Governance Committee as a pure Nomination Committee by passing the corporate governance duties and responsibilities back to the Board; and
- to dissolve the Remuneration Committee and pass its duties and responsibilities to the Parent, other Board sub-committees and/or the Board itself.

As a result of these decisions Simon Turner stepped down as a Director with effect from 31 December 2017 and a further two Directors are expected to retire during 2018. The Remuneration Committee was disbanded on 6 December 2017.

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.

Given the Third party governance review an internal evaluation was undertaken during 2017 with an external evaluation scheduled for 2018.

As part of the process, the Chairman met with each Director to review their performance. The SID also led an evaluation of the Chairman's performance with the other Directors.

On reviewing the outcome of the 2017 internal evaluation process, the Board concluded that each individual Director continued to make a valuable contribution and that the recommendations identified during the previous evaluation had been adequately addressed.

Terms of appointment and time commitment

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 that a specific time commitment is required from Directors.

Induction 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

During 2017 the Board and the SMT developed a Management information pack which the Board Members receive every month. This includes financial results for the period and business updates from the SMT. The SMT also provides the Board with comprehensive reports on regulatory and compliance issues including the level of customer complaints, interaction with the Regulator 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, the Nomination Committee and the Remuneration Committee are presented on the following pages.

Board committees

Board Audit Committee

8 meetings during 2017 (2016: 7)

Roger Perkin (Chair from 28 Feb 17)
Bruce Robinson (Chair until 28 Feb 17)
Margaret Butler
Pauline Egan (until 12 Jan 17)
Simon Turner (12 Jan 17 to 31 Dec 17)

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 and the Parent's 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 risk across 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.

Activity in 2017

During 2017 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 managements' 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 policies and estimates);
- reviewed the scope of the independent audit, and the findings, conclusions and recommendations of the auditor;
- satisfied itself through regular reports from the Parent's internal audit function, the Chief Financial Officer, the Chief Risk Officer, the external auditor and the Head of Compliance and Financial Crime Prevention that the system of internal controls over financial reporting was effective;
- received regular updates from the Parent's Internal Audit function;
- received rolling updates from the Chief Risk Officer 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 Parent's Internal Audit function, in each case with only Non-Executive Directors present;
- the committee oversees 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
- the committee also 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 2017 (2016: 7)

Margaret Butler (Chair)
Graham Buckland (from 1 Mar 17)
Declan Collier (from 1 Mar 16)
Roger Perkin (from 1 Mar 17)
Peter Spratt (until 12 Jan 17)
Simon Turner (until 31 Dec 17)

Responsibilities

The committee is responsible for assisting the Board in fulfilling its oversight responsibilities in the development, implementation and maintenance of the Bank's overall risk culture, risk management framework and its risk appetite, strategy, principles and policies. This is to ensure they are consistent with the strategy, regulatory requirements, corporate governance principles and industry best practice. The committee's responsibilities include assessing the matters set out below, and further details on the Bank's risk management strategy are set out in the Risk Management section of this report:

- its current risk exposures and future risk strategy;
- its risk appetite and material risk policies given its strategic objectives and obligations to stakeholders;
- its material risk assessment, encompassing consideration of credit, operational, compliance and conduct, people and culture, capital and liquidity risk; and
- the embedding and maintenance of a supportive culture in relation to the management of risk across 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 in relation to the Chief Risk Officer, including appointment, replacement, and remuneration, in conjunction with the Remuneration Committee, and confirming the Chief Risk Officer's independence. The committee meets individually on at least an annual basis with the Chief Risk Officer and the Head of Compliance and Financial Crime Prevention.

Activity in 2017

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:

- quarterly reports from the Chief Risk Officer which provided an overview of risk profile and key risks including liquidity and funding, capital adequacy, credit risk, market risk, regulatory risk, business risk, conduct risk and related mitigants;
- the risk appetite statement;
- the funding and liquidity policy, strategy and related stress tests, and the ILAAP;
- risk frameworks and policies, including those relating to:
  (a) credit and credit risk;
  (b) capital management;
  (c) financial risk, including market risk; and
  (d) conduct risk;
- capital planning, including consideration of AIB UK Group ICAAP reports and related stress test scenarios;
- the efficacy of management oversight and control, including:
  (a) Anti-Money Laundering/Financial Sanctions policies and frameworks;
  (b) significant operational risk events and potential risks;
  (c) credit risk performance and trends, including days past due and monthly overview of significant credit transactions;
  (d) the operating model for material outsourcing;
  (e) regulatory development;
- the Bank's risk management infrastructure including actions taken to strengthen its risk management governance, people skills and system capabilities.

Nomination Committee

6 meetings during 2017 (2016:10)

Peter Spratt (Chair)
Graham Buckland (from 1 Mar 17)
Margaret Butler (until 12 Jan 2017)
Declan Collier (from 1 Mar 16)
Pauline Egan (12 Jan 17 to 29 Jun 17)
Bruce Robinson

Responsibilities

The committee has oversight responsibility for:

- reviewing the size, structure and composition of the Board, including its numerical strength, the ratio of Executive to Non-Executive Directors, the balance of skills, knowledge and experience of individual members of the Board and of the Board collectively, and the diversity and service profiles of the Directors, and 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;
- reviewing the size, structure, composition, diversity and skills of the committees and the independence of Non-Executive Directors;
- reviewing Board and Senior Executive succession planning;
- monitoring the Bank's corporate social responsibilities and activities concerning customers, staff, the marketplace, the environment and the community.

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.

Activity in 2017

During 2017, the committee undertook a large volume of activity. In addition to its responsibility of ensuring the Bank has an effective Board and committees in place, the committee concluded its search for a permanent Chief Financial Officer and a permanent Chief Risk Officer and commenced the search for a new Non-Executive Director.

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 per cent.

The committee has also fulfilled its duty to ensure that the Board's governance arrangements are robust and that appropriate recommendations have been made to the Board to ensure that such arrangements are consistent with best practice corporate governance standards. This included oversight of the third party governance review detailed on page 27.

Remuneration Committee

3 meetings during 2017 (2016: 5)

Declan Collier (Chair to 6 Dec 17)
Pauline Egan (until 29 Jun 17)
Tom Foley (until 6 Dec 17)
Peter Spratt (30 Jun 17 to 6 Dec 17)

Responsibilities

The committee had responsibility for:

- recommending AIB UK Group remuneration policies and practices to the Board;
- the remuneration of the chairman of the Board;
- determining the remuneration of the Managing Director, other Executive Directors and other members of the SMT, under advice to the Board;
- reviewing the remuneration components of Identified Staff, who are individuals classified by the Company as 'material risk takers' in accordance with EBA guidelines.

Activity in 2017

During 2017, the committee, in conjunction with the Parent's remuneration committee, considered and challenged the overarching principles and parameters of UK relevant remuneration matters. The committee was also involved in overseeing the wider people and culture agenda for AIB UK Group. The committee considered the remuneration arrangements of the Chairman, the Executive Directors and other Senior Executives and Identified Staff.

Following the governance review the committee was disbanded on 6 December 2017 and its duties and responsibilities passed to the Parent, Board and/or other sub committees.

Board of Directors

					
	Peter Spratt	**Sir Bruce Robinson**	**Mark Bourke**	**Graham Buckland**	**Margaret Butler**
	Independent Non-Executive Chairman	Non-Executive Deputy Chairman and Senior Independent Director	Non-Executive Director and Chief Financial Officer AIB plc	Independent Non-Executive Director	Independent Non-Executive Director and Chairman of Board Risk Committee
Appointed to the Board	March 2015 (Chairman - March 2016)	August 2013 (Deputy Chairman - December 2014)	July 2017	March 2017	August 2013
Key areas of expertise	Finance, Audit, Business recovery and restructuring	Finance, Audit, Policy Development, Northern Ireland economy	Finance, Strategy	Corporate Banking	Retail Banking, Finance, Strategy, Business Transformation
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 CEO of AIB Group (UK) plc 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 for the Northern Ireland Executive, Bruce led successful drives to improve financial management and budgetary control and implement shared services across 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.	Mark joined AIB plc in April 2014 as Chief Financial Officer and member of the Leadership Team and was co-opted onto its Board on 29 May 2014. He is also a director of AIB Group plc. He joined AIB plc from IFG Group plc where he held a number of senior roles, including Group Chief Executive Officer, Deputy Chief Executive Officer and Finance Director. Mark began his career at PricewaterhouseCoopers (PwC) in 1989 and is a former partner in international tax services with PwC US in California. He is a member of Chartered Accountants Ireland and the Irish Taxation Institute.	Graham joined Barclays in 1979 and held various roles in corporate banking before moving to the Investment Bank where he was Managing Director and Deputy Head of UK Corporate Finance and was also responsible for a portfolio of FTSE 100 clients. Before his retirement from Barclays in 2016 he was a Managing Director in Corporate Banking where his roles included Head of London Region and where he had responsibility for corporate clients through seven sector specialist industry teams and also with responsibility for Barclays' large corporate clients in the UK.	Margaret's career spans over 40 years in the Financial Services industry, with Clydesdale Bank, National Australia Group in Melbourne, London and Glasgow, and Northern Bank in Belfast. She has 20 years' experience in Senior and Executive positions across a wide range of disciplines including Human Resources, Planning, Strategy, Service Delivery as well as those key areas of expertise as set out above.
Key external appointments	None	Board of the Irish American Partnership, Advisory Board of KPMG Northern Ireland	IFG Securities Limited	Look Ahead Care & Support (charity)	Chair of Northern Ireland Hospice

				
Declan Collier	**Tom Foley**	**Roger Perkin**	**Rachel Lawrence**	**Brendan O'Connor**
Independent Non-Executive Director	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 2013	April 2014	March 2017	July 2017	October 2015
Key areas of expertise				
Stakeholder Engagement / Management, Negotiation, Customer Experience	Business Banking, Treasury, Finance, Audit, Risk, Strategy, Policy Development	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				
Declan is currently President of Airport Council International (World) and chair of the World Board of the Airports Council International (ACI). Declan was Chief Executive Officer of London City Airport from 2012 to Jan 2018 and before this was Chief Executive of the Dublin Airport Authority (DAA) since 2005. Prior to joining the DAA, Declan worked with ExxonMobil, where he held a number of senior executive positions in Ireland and the UK. Declan previously served on the Board of AIB plc prior to joining the AIB UK Board.	Tom is a Non-Executive Director of AIB plc, AIB Group plc, EBS d.a.c. and Intesa SanPaolo Life d.a.c. and a former Executive Director of KBC Bank Ireland and KBC Homeloans, having held a variety of senior management and board positions with KBC in Ireland and the UK. He was a member of the Nyberg Commission of Investigation into the banking sector during 2010 and 2011 and the Irish Department of Finance Expert Group on Mortgage Arrears and Personal Debt during 2010. He qualified as a Chartered Accountant with PricewaterhouseCoopers (PwC) and is a former senior executive with Ulster Investment Bank.	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.	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. Brendan joined AIB plc's Executive Leadership Team in February 2013 as Head of Financial Solutions Group prior to taking up his current role.
Key external appointments				
The Schiphol Airports Group, TCR International N.V.	Intesa Sanpaolo Life Limited	Electra Private Equity plc, TP ICAP plc and Hargreaves Lansdowne plc	None	None

Report of the Directors

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 2017. A Directors' responsibility statement is shown on page 40.

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 2 to 8, capital management on pages 15 and 16, financial instruments in notes 36 and 37 on pages 117 to 123 and events after the reporting date in note 45, page 133.

Results

Our after tax profit for the year ended 31 December 2017 was £102 million (2016: £66 million) and was calculated as shown in the consolidated income statement on page 48.

Dividends

We did not pay a dividend during the year to 31 December 2017 or the year before.

Directors and Company Secretary

In addition to the serving directors the following individuals served during the year:

- Pauline Egan who resigned as a Non-Executive Director on 29 June 2017;
- Simon Turner who resigned as a Non-Executive Director on 31 December 2017;
- David O'Callaghan who resigned as Company Secretary on 31 March 2017; and
- Iain Hamilton who was appointed as Company Secretary on 6 April 2017.

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

Corporate governance statement

We are not required to, nor have we voluntarily chosen to, comply with the UK Corporate Governance Code. However in preparing the financial statements, we have adopted the principles of the UK Corporate Governance Code where the Directors' deemed them appropriate for a company of our nature and size. We consider the 2017 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 2017 on pages 48 to 52 is appropriate and decided that it is. The reasons for this decision are set out in the 'Going Concern' note on page 55.

Viability statement

We have looked at the viability of the Bank, taking into account the current position and the principal risks facing it until 31 December 2020. We decided that three years was an appropriate time for this given that it is the main period of focus for our strategic plan. This plan is considered annually and is subject to stress testing which looks at the potential impact of possible but extreme examples of the principal risks and uncertainties facing the Bank, these include the continued uncertainty of the impact of the UK decision to leave the EU ('Brexit'). We also considered the current financial performance, funding & liquidity management and capital management of the Bank, as set out in the Financial review on pages 9 to 17, and the governance and oversight through which the Bank manages and seeks where possible to reduce its risks as described on pages 25 to 31. Finally a detailed review of the principal risks facing the Bank, including those that would threaten the business operations, governance and internal control systems was completed, the details of this are on pages 21 to 24. We believe that taking into account the Bank's current position, and subject to the identified principal risks, the Bank will be able to continue in operation and meet its liabilities as they fall due over the three year period.

Internal controls

Board governance and controls

We are responsible for the Bank's system of internal control and for reviewing its effectiveness. A strong system of internal control 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 control 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 SMT 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 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 Parent's 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 Parent's Internal Audit function or other reviews have been fixed.

Code of conduct

Our Code of conduct ('Code'), which covers all staff, sets out the standard of behaviour expected from all staff, and tells management 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 staff both understand and follow it. The Code is reviewed annually.

The Code is also supported by our 'Speak Up' policy and whistleblowing arrangements which encourage staff to raise any concerns of wrong-doing in a number of ways including a confidential external help-line. Staff 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 'First Trust Bank' in Northern Ireland.

The Bank has the statutory power to issue bank notes as local currency in Northern Ireland (it does this under the name 'First Trust Bank') and 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 2018.

Legislative changes
We are subject to most of the significant changes to European Regulation, such as Payment Services Directive 2 ('PSD2'), MiFID 2, 4th EU Anti-Money Laundering Directive ('AMLD') and the General Data Protection Regulations ('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 Competition and Markets Authority ('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.

Personal data
Work has been ongoing during 2017 to prepare for the implementation of GDPR, which comes into force in May 2018. The regulation will give individuals significant additional rights as to how firms use and retain their data i.e. the right to have data erased and the right to data portability.

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 Group 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.

Staff engagement

We have a dedicated internal communications function to ensure staff 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 staff, 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 Group. In the event of members of staff becoming disabled every effort is made to ensure their employment with the AIB UK Group continues and that appropriate training/support is arranged. It is the policy of AIB UK Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other staff.

Directors' indemnities

We have made qualifying third party indemnity provisions for our Directors. These were in place at 31 December 2017.

Auditors

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

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

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

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

By Order of the Board,

Brendan O'Connor

Managing Director
28 February 2018

Financial statements

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.

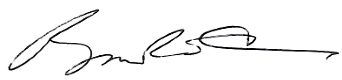
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's websites.

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 28 February 2018 and is signed on its behalf by:



Brendan O'Connor

Managing Director
28 February 2018

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 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 of AIB Group (UK) plc (the 'parent company') and its subsidiaries (the 'Group') which comprise:

- the consolidated income statement;
- the consolidated and parent company statements of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of cash flows;
- the consolidated and parent company statements 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.

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 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.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • loan loss provisioning; and • appropriate measurement of the deferred tax asset.
Materiality	The materiality that we used in the current year was £10,000,000 which was determined on the basis of between 0.5% and 1% 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 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.

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.

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.

Loan loss provisioning	
Key audit matter description	As detailed in the summary of critical accounting judgements and estimates on page 76, the estimation of impairment provisions is inherently uncertain and requires significant management judgement. Therefore, we have determined that there was a risk of error in or manipulation of this balance. Management have recognised a specific loan impairment provision of £87m (2016: £187m) in respect of loans that have been individually assessed as impaired, providing against 43% (2016: 50%) of the impaired loan population. The key judgements in the assessment of the specific provision are the timing and quantum of expected future cash flows, the most critical of which is the estimation of sale proceeds for collateral held against corporate and commercial loans. Additionally, management have recognised an incurred but not reported ("IBNR") provision of £38m (2016: £40m). The calculation of this provision uses historic experience of loss rates to estimate the impact of impairment events which have occurred but have not yet been reported. Management also applies overlays where they believe that the data driven parameters and calculations are not appropriate, which require significant judgement. Therefore, both the overlays and the appropriateness of the loss rates used in the model are key areas of focus.

How the scope of our audit responded to the key audit matter	We obtained an understanding and tested the design effectiveness of the key controls around loan loss provisioning, focusing on: • governance over the specific impairment process, including controls that gave assurance over the valuation of commercial real estate used in the provision calculations; and • the review and approval of model outputs and any overlays that were subsequently applied to the modelled provision. In addition, we have performed the following substantive procedures: **Specific provisions** For a sample of individually impaired loans, we re-performed the impairment calculation and challenged the key assumptions by independently assessing collateral valuations based on the recovery strategy for each borrower. Where management applied adjustments to collateral valuations, we challenged them to provided evidence that these were necessary and appropriate. **Incurred but not reported provision** For the IBNR provision, we tested the completeness and accuracy of the underlying data used in the impairment model. We also re-performed management's calculation and, for the key inputs and assumptions used in the model, obtained and tested objective evidence to support the assumptions. For overlays to the modelled provision, we challenged management to provide objective evidence that the overlays were necessary and appropriate. Additionally, we performed an independent assessment of the overall provision using the underlying data and the key assumptions to further challenge management's provision.
Key observations	From our inspection of a sample of individually impaired loans and our challenge of the judgements within IBNR provision model, we observed both conservative and optimistic elements. Overall, we concluded that both the specific and IBNR provisions were within a reasonable range.

Appropriate measurement of the deferred tax asset

Key audit matter description	As detailed in the summary of critical accounting judgements and estimates on page 76 and in note 27, management have recognised a deferred tax asset ("DTA") of £111m (2016: £95m) as a result of significant unutilised tax losses suffered between 2009 and 2012. Given the inherent uncertainty in forecasting beyond the immediate future, 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 are 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 AIB Group (UK) plc 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 appropriate length of the recognition period based on these profit projections.

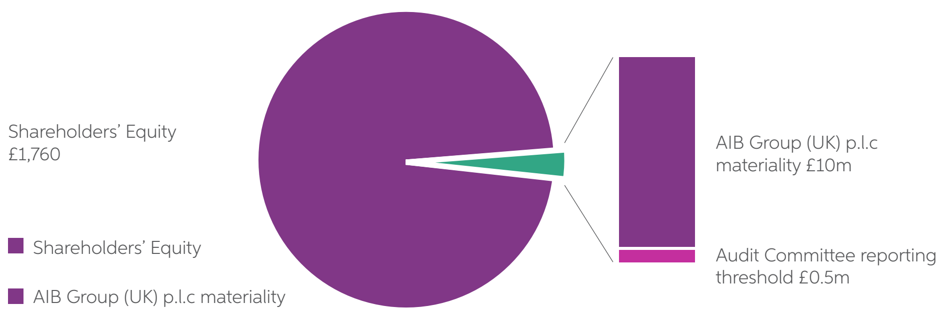
How the scope of our audit responded to the key audit matter	We documented and tested the design effectiveness and implementation of the key controls over the governance and production of the deferred tax asset calculation, including the projection of balance sheet (loan) growth and taxable profits, and the determination of the recognition period. 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. We challenged management to provide appropriate support for the fifteen year recoverable period. We have also evaluated the relevant disclosures in the financial statements.
Key observations	With reference to historic performance, we challenged management's assumptions in relation to forecast profits and the recoverable period. We concur with management's assessment that sufficient profits are probable for the recoverable period.

Our application of materiality

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

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

Group materiality	£10,000,000
Parent company materiality	£9,900,000
Basis for determining materiality	0.6% of Shareholders' Equity as at 31 December 2017.
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 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 As profitability improves and stabilises, we would expect to move to a profit based materiality for future audits.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £500,000 (2016: £500,000), 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.

An overview of the scope of our audit

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 team performed the audit of the Group and its only material component as if it were a single aggregated set of financial information. The audit was performed using the materiality level set out above and covered 100% of total Group revenue, profit before tax, and total assets. 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.

We have continued to place appropriate emphasis on the use of specialists. All core members of the audit team have been drawn from our financial services audit practice and have been supported by IT, tax, actuarial and real estate audit specialists.

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.

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.

Auditor's responsibilities for the audit of the financial statements

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

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

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.

Report on other legal and regulatory requirements

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 of 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.

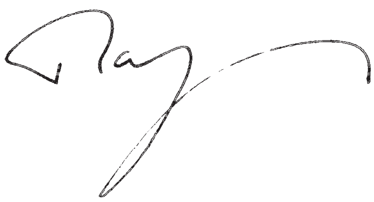
Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or • the parent company financial statements are not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**
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.**

Other matters

Auditor tenure
Following the recommendation of the audit committee, we were appointed by AIB Group (UK) plc 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 5 years, covering the years ending 2013 to 2017.

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).



Mark Rhys (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London United Kingdom

28 February 2018

Consolidated income statement

for the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Interest and similar income	4	260	275
Interest expense and similar charges	5	(50)	(70)
Net interest income		**210**	**205**
Fee and commission income	6	48	51
Fee and commission expense	6	(6)	(6)
Net trading and other financial income	7	9	8
Other operating income	8	12	27
Other income		**63**	**80**
Total operating income		**273**	**285**
Administrative expenses	9	(148)	(116)
Depreciation of property, plant and equipment	25	(2)	(1)
Amortisation of intangible assets	26	(1)	-
Total operating expenses		**(151)**	**(117)**
Operating profit before provisions		**122**	**168**
Provision for liabilities and commitments	32	4	2
Provision for impairment of loans and receivables	19	(21)	(1)
Total provisions		**(17)**	**1**
Operating profit		**105**	**169**
Profit on disposal of business assets	10	-	1
Profit on disposal of property	25	1	-
Profit before taxation from continuing activities		**106**	**170**
Taxation on ordinary activities	13	(4)	(104)
Profit for the year		**102**	**66**
Attributable to:			
Equity holders of the parent		102	66

All results are derived from continuing operations.

The notes on pages 53 to 133 form an integral part of these financial statements.

Statements of comprehensive income

for the year ended 31 December 2017

		AIB UK Group		AIB UK	
		2017	2016	2017	2016
	Notes	£m	£m	£m	£m
Profit for the year		102	66	97	65
Other comprehensive income, net of tax					
Items that will not be reclassified to profit or loss:					
Net actuarial (loss)/gain in retirement benefit schemes, net of tax	34	(27)	7	(27)	7
Total items that will not be reclassified to profit or loss		**(27)**	**7**	**(27)**	**7**
Items that may be reclassified subsequently to profit or loss:					
Net change in cash flow hedges, net of tax	34	(14)	25	(14)	25
Net change in fair value of available for sale securities, net of tax	34	(4)	(9)	(4)	(10)
Total items that may be reclassified subsequently to profit or loss		**(18)**	**16**	**(18)**	**15**
Other comprehensive (loss)/income for the year, net of tax		**(45)**	**23**	**(45)**	**22**
Total comprehensive income for the year		**57**	**89**	**52**	**87**
Attributable to:					
Equity holders of the parent		**57**	**89**	**52**	**87**

The notes on pages 53 to 133 form an integral part of these financial statements.

Statements of financial position

as at 31 December 2017

		AIB UK Group		AIB UK	
		2017	2016	2017	2016
	Notes	£m	£m	£m	£m
Assets					
Cash and balances at central banks		3,583	3,458	3,583	3,458
Items in course of collection		38	65	38	65
Derivative financial instruments	16	112	155	112	153
Loans and receivables to banks	17	965	2,661	965	2,646
Loans and receivables to customers	18	6,512	6,471	6,512	6,469
Financial investments available for sale	22	33	38	33	38
Prepayments and accrued income		4	6	4	6
Other assets	23	89	32	89	32
Retirement benefit	11	419	445	419	445
Property, plant and equipment	25	15	15	12	13
Intangible assets	26	25	11	25	11
Deferred taxation	27	40	17	40	17
Total assets		**11,835**	**13,374**	**11,832**	**13,353**
Liabilities					
Derivative financial instruments	16	116	141	116	141
Deposits by banks	28	473	2,255	464	2,246
Customer accounts	29	9,034	8,726	9,063	8,795
Debt securities in issue	30	-	59	-	-
Accruals and deferred income		27	15	27	14
Other liabilities	31	365	391	364	391
Provision for liabilities and commitments	32	21	33	15	23
Current taxation	13	4	12	4	12
Deferred taxation	27	35	39	35	39
Total liabilities		**10,075**	**11,671**	**10,088**	**11,661**
Shareholders' equity					
Share capital	33	2,384	2,384	2,384	2,384
Reserves		9	28	8	27
Retained earnings		(633)	(709)	(648)	(719)
Total shareholders' equity		**1,760**	**1,703**	**1,744**	**1,692**
Total liabilities and shareholders' equity		**11,835**	**13,374**	**11,832**	**13,353**

The notes on pages 53 to 133 form an integral part of these financial statements.
The Company reported a profit for the financial year ended 31 December 2017 of £97m (2016: £65m).

Approved by the Directors on 28 February 2018.

Brendan O'Connor
Director

Company registration number: NI018800

Statements of cash flows

for the year ended 31 December 2017

	Notes	AIB UK Group 2017 £m	AIB UK Group 2016* £m	AIB UK 2017 £m	AIB UK 2016* £m
Cash flows from operating activities					
Profit before taxation		106	170	101	169
Adjustments for:					
Provision for impairment of loans and receivables	19	21	1	21	1
Profit on disposal of business assets		-	-	-	(1)
Profit on disposal of property		(1)	-	(1)	-
Profit on disposal of financial investments available for sale		(6)	(21)	(6)	(21)
Provision for liabilities and commitments	32	(4)	(2)	(2)	(2)
Depreciation, amortisation and impairment		3	1	3	1
Retirement benefits-defined benefit income		(12)	(17)	(12)	(17)
Increase in prepayments and accrued income		2	-	2	-
Increase/(decrease) in accruals and deferred income		12	(9)	13	(10)
(Profit)/loss on disposal/transfer of loans and receivables		(4)	1	(4)	1
Net cash inflow from operating activities		**117**	**124**	**115**	**121**
Net decrease in loans and receivables to banks		908	906	893	902
Net (increase)/ decrease in loans and receivables to customers		(106)	(1)	(112)	2
Net decrease in deposits by banks		(1,813)	(15)	(1,813)	(15)
Net increase in customer accounts	29	308	399	268	361
Net decrease in debt securities in issue	30	(59)	(40)	-	-
Net decrease in derivative financial instruments	16	(1)	(2)	(3)	(1)
Net increase/(decrease) in items in course of collection		27	(2)	27	(2)
Net (decrease)/increase in notes in circulation	31	(18)	1	(18)	1
Net (increase)/decrease in other assets		(9)	172	(9)	171
Net (decrease)/increase in other liabilities		(14)	27	(9)	28
Net cash (outflow)/inflow from operating assets and liabilities		**(777)**	**1,445**	**(776)**	**1,447**
Net cash (outflow)/inflow from operating activities before taxation		**(660)**	**1,569**	**(661)**	**1,568**
Taxation paid		(24)	(19)	(24)	(18)
Net cash (outflow)/inflow from operating activities		**(684)**	**1,550**	**(685)**	**1,550**
Investing activities	40	**(10)**	**9**	**(9)**	**9**
(Decrease)/increase in cash and cash equivalents		**(694)**	**1,559**	**(694)**	**1,559**
Opening cash and cash equivalents*		4,671	3,112	4,671	3,112
Closing cash and cash equivalents	39	**3,977**	**4,671**	**3,977**	**4,671**

* 2016 figures are restated to exclude the regulatory balances with the Bank of England in 2016.

The notes on pages 53 to 133 form an integral part of these financial statements.

Statements of changes in equity

for the year ended 31 December 2017

AIB UK Group	Notes	Share capital £m	Other reserves £m	Cash flow hedging reserve £m	Available for sale reserve £m	Retained earnings £m	Total equity £m
		Attributable to equity holders of the parent					
At 1 January 2017		2,384	3	20	5	(709)	1,703
Profit for the year		-	-	-	-	102	102
Other comprehensive income, net of tax	34	-	-	(14)	(4)	(27)	(45)
Total other comprehensive income		**-**	**-**	**(14)**	**(4)**	**75**	**57**
Other movements		-	(1)	-	-	1	-
At 31 December 2017		**2,384**	**2**	**6**	**1**	**(633)**	**1,760**
At 1 January 2016		2,384	3	(5)	14	(782)	1,614
Profit for the year		-	-	-	-	66	66
Other comprehensive income, net of tax	34	-	-	25	(9)	7	23
At 31 December 2016		**2,384**	**3**	**20**	**5**	**(709)**	**1,703**

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
		Attributable to equity holders of the parent					
At 1 January 2017		2,384	2	20	5	(719)	1,692
Profit for the year		-	-	-	-	97	97
Other comprehensive income, net of tax	34	-	-	(14)	(4)	(27)	(45)
Total other comprehensive income		**-**	**-**	**(14)**	**(4)**	**70**	**52**
Other movements		-	(1)	-	-	1	-
At 31 December 2017		**2,384**	**1**	**6**	**1**	**(648)**	**1,744**
At 1 January 2016		2,384	2	(5)	15	(791)	1,605
Profit for the year		-	-	-	-	65	65
Other comprehensive income, net of tax	34	-	-	25	(10)	7	22
At 31 December 2016		**2,384**	**2**	**20**	**5**	**(719)**	**1,692**

The notes on pages 53 to 133 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 limited company domiciled 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 2017 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 28 February 2018.

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 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 2017. 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 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, certain hedged financial assets and financial liabilities and financial assets classified as available-for-sale.

The financial statements comprise the consolidated income statement, the consolidated and parent statements of comprehensive income, the consolidated and parent company statements of financial position, the consolidated and parent company statements of cash flows, and the consolidated statements of changes in equity together with the related notes. These notes also include financial instrument related disclosures which are required by IFRS 7 and revised IAS 1.

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 estimates that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in the areas of loan impairment; the recoverability of deferred tax; determination of the fair value of certain financial assets; and retirement benefit obligations. In addition, the classification of financial assets and financial liabilities has a significant impact on their income statement treatment and could have a significant impact on reported income.

A description of these judgements and estimates is set out in note 3, Critical accounting judgements and estimates on pages 76 to 78.

Going Concern

The financial statements for the year ended 31 December 2017 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.

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 2018 to 2020 presented to the Board in December 2017, 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 material risks and uncertainties which could materially affect AIB UK Group's future business performance and profitability and which are outlined on pages 19 to 24.

The Directors believe that the 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 15.

AIB UK Group's liquidity is outlined on page 17. The Directors are satisfied, based on the Parent's position in the Irish market place and the successful IPO in 2017, that in all reasonable 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

During the year to 31 December 2017, AIB UK Group adopted amendments to standards and interpretations which had an insignificant impact on these annual financial statements.

Amendments to IAS 7, Statement of Cash Flows

Amendments to IAS 12, Income Taxes

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.

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.

Associated undertakings

An associated undertaking is an entity over which AIB UK Group has significant influence, but not control, over the entity's operating and financial policy decisions. If AIB UK Group holds 20% or more of the voting power of an entity, it is presumed that AIB UK Group has significant influence, unless it is clearly demonstrable that this is not the case.

Investments in associated undertakings are initially recorded at cost and increased (or decreased) each year by AIB UK Group's share of the post-acquisition net income (or loss), and other movements reflected directly in other comprehensive income of the associated undertaking.

Goodwill arising on the acquisition of an associated undertaking is included in the carrying amount of the investment. When AIB UK Group's share of losses in an associate has reduced the carrying amount to zero, including any other unsecured receivables, AIB UK Group does not recognise further losses, unless it has incurred obligations to make payments on behalf of the associate.

Where AIB UK Group continues to hold more than 20% of the voting power in an investment but ceases to have significant influence, the investment is no longer accounted for as an associate. On the loss of significant influence, AIB UK Group measures the investment at fair value and recognises any difference between the carrying value and fair value in profit or loss and accounts for the investment in accordance with IAS 39, Financial Instruments: Recognition and Measurement.

AIB UK Group's share of the results of associated undertakings after tax reflects AIB UK Group's proportionate interest in the associated undertaking and is based on financial statements made up to a date not earlier than three months before the period end reporting date, adjusted to conform with the accounting policies of AIB UK Group.

Since goodwill that forms part of the carrying amount of the investment in an associate is not recognised separately, it is therefore not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

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 equities classified as available for sale financial assets, together with 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.

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 financial investments available for sale 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 and funding costs of trading portfolio financial assets, excluding dividends on equity shares.

2.6 Dividend income

Dividend income is recognised when the right to receive dividend income is established. Usually this is the ex-dividend date for equity securities.

2.7 Fee and commission income

Fees and commissions are generally recognised on an accruals basis when the service has been provided, unless they have 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. Asset management fees relating to investment funds are recognised over the period the service is provided. The same principle is applied to the recognition of income from wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Commitment fees, together with related direct costs, for loan facilities where drawdown is probable are deferred and recognised as an adjustment to the effective interest rate on the loan once drawn. Commitment fees in relation to facilities where drawdown is not probable are recognised over the term of the commitment on a straight line basis. Other credit related fees are recognised as the service is provided 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.

2.8 Net trading income

Net trading income comprises gains less losses relating to trading assets and trading liabilities and trading derivatives, and includes all realised and unrealised fair value changes.

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 determined by using current bid prices. 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 by consultants using actuarial valuation techniques. 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.

Plan assets also comprise of a longevity swap which is accounted for as a plan asset under IAS 19, where the discount rate and mortality basis are used to discount the net cash flows under the swap agreement. The longevity swap is measured at fair value.

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 staff 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 Operating leases

Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received and premiums paid at inception of the lease are recognised as an integral part of the total lease expense over the term of the lease.

2.11 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.

2.12 Financial assets

AIB UK Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; and available for sale financial assets. Purchases and sales of financial assets are recognised on trade date, being the date on which AIB UK Group commits to purchase or sell the assets. Loans are recognised when cash is advanced to the borrowers.

Interest is calculated using the effective interest method and credited to the income statement. Dividends on available for sale equity securities are recognised in the income statement when the entity's right to receive payment is established.

Impairment losses and translation differences on the amortised cost of monetary items are recognised in the income statement.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when AIB UK Group has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss

This category can have two sub categories: financial assets held for trading; and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the near term; part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or if it is so designated at initial recognition by management, subject to certain criteria.

The assets are recognised initially at fair value and transaction costs are taken directly to the income statement. Interest and dividends on assets within this category are reported in interest income, and dividend income, respectively. Gains and losses arising from changes in fair value are included directly in the income statement within net trading income.

Derivatives are also classified in this category unless they have been designated as hedges or qualify as financial guarantee contracts.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. They arise when AIB UK Group provides money or services directly to a customer with no intention of trading the loan. Loans and receivables are initially recognised at fair value adjusted for direct and incremental transaction costs and are subsequently carried on an amortised cost basis.

Available for sale

Available for sale financial assets are non-derivative financial investments that are designated as available for sale and are not categorised into any of the other categories described above. Available for sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available for sale financial assets are initially recognised at fair value adjusted for direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income until sale or impairment when the cumulative gain or loss is transferred to the income statement as a recycling adjustment. Assets reclassified from the held for trading category are recognised at fair value.

2.13 Financial liabilities

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.

2.14 Leases

Lessor

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

Assets leased to customers are classified as operating leases if the lease agreements do not transfer substantially all the risks and rewards of ownership. The leased assets are included within property, plant and equipment on AIB UK Group's 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

Operating lease rentals payable are recognised as an expense in the income statement on a straight line basis over the lease term unless another systematic basis is more appropriate.

2.15 Determination of fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, 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 analysis and other valuation techniques commonly used by market participants.

Quoted prices in active markets

Quoted market prices are used where those prices are considered to represent actual and regularly occurring market transactions for financial instruments in active markets.

Valuations for negotiable instruments such as debt and equity securities are determined using bid prices for asset positions and ask prices for liability positions.

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

Valuation techniques

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

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

- The likelihood and expected timing of future cash flows of the instrument. These cash flows are generally governed by the terms of the instrument, although management judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. In addition, future cash flows may also be sensitive to the occurrence of future events, including changes in market rates; and

- Selecting an appropriate discount rate for the instrument, based on the interest rate yield curves including the determination of an appropriate spread for the instrument over the risk-free rate. The spread is adjusted to take into account the specific credit risk profile of the exposure.

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

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

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

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

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

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.

2.16 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.

2.17 Derivatives and hedge accounting

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

AIB UK Group maintains trading positions in a variety of financial instruments including derivatives. Trading transactions arise as a result of activity generated by customers and include offsetting contracts with the Parent to ensure there is 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

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.

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.

2.18 Impairment of financial assets

It is AIB UK Group policy to make provisions for impairment of financial assets to reflect the losses inherent in those assets at the reporting date.

Impairment

AIB UK Group assesses at each reporting date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and on or before the reporting date (‘a loss event’), and that loss event or events has had an impact such that the estimated present value of future cash flows is less than the current carrying value of the financial asset, or portfolio of financial assets.

Objective evidence that a financial asset or a portfolio of financial assets is impaired includes observable data that comes to the attention of AIB UK Group about the following loss events:

a) significant financial difficulty of the issuer or obligor;

b) a breach of contract, such as a default or delinquency in interest or principal payments;

c) the granting to the borrower of a concession, for economic or legal reasons relating to the borrower's financial difficulty that AIB UK Group would not otherwise consider;

d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

e) the disappearance of an active market for that financial asset because of financial difficulties; or

f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
    i. adverse changes in the payment status of borrowers in the portfolio; and
    ii. national or local economic conditions that correlate with defaults on the assets in the portfolio.

Incurred but not reported

AIB UK Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant (i.e. individually insignificant). If AIB UK Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics under the collective incurred but not reported ('IBNR') assessment. An IBNR impairment provision represents an interim step pending the identification of impairment losses on an individual asset in a group of financial assets. As soon as information is available that specifically identifies losses on individually impaired assets in a group, those assets are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

Collective evaluation for impairment

For the purpose of collective evaluation of impairment (individually insignificant impaired assets and IBNR), financial assets are grouped on the basis of similar risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment loss

For loans and receivables and assets held to maturity, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

The amount of the loss is recognised using an allowance account and is included in the income statement.

Following impairment, interest income is recognised using the original effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

When a loan has been subjected to a specific provision and the prospects of recovery do not improve, a time will come when it may be concluded that there is no real prospect of recovery. When this point is reached, the amount of the loan which is considered to be beyond the prospect of recovery is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

Collateralised financial assets – repossessions

The calculation of the present value of the estimated future cash flows of 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 impaired, AIB UK Group may repossess collateral previously pledged as security in order 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 the relevant asset and not as an impairment of the original loan.

Past due loans

When a borrower fails to make a contractually due payment, a loan is deemed to be past due. 'Past due days' is a term used to describe the cumulative numbers of days that a missed payment is overdue. Past due days commence from the close of business on the day on which a payment is due but not received. In the case of overdrafts, past due days are counted once a borrower:

- has breached an advised limit;
- has been advised of a limit lower than the then current outstandings; or
- has drawn credit without authorisation.

When a borrower is past due, the entire exposure is reported as past due, rather than the amount of any excess or arrears.

Financial investments available for sale

In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that had previously been recognised in other comprehensive income is recognised in the income statement as a reclassification adjustment. Reversals of impairment of equity securities are not recognised in the income statement and increases in the fair value of equity securities after impairment are recognised in other comprehensive income.

In the case of debt securities classified as available for sale, impairment is assessed on the same criteria as for all other debt financial assets. Impairment is recognised by transferring the cumulative loss that has been recognised directly in other comprehensive income to the income statement. Any subsequent increase in the fair value of an available for sale debt security is included in other comprehensive income unless the increase in fair value can be objectively related to an event that occurred after the impairment was recognised in the income statement, in which case the impairment loss or part thereof is reversed.

Loans renegotiated and forbearance

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 with the customer or arising from changes in the customer's circumstances such as when that customer is unable to make the agreed original contractual repayments.

Forbearance

A forbearance agreement is entered into where the customer is in financial difficulty to the extent that they are unable to repay both the principal and interest on their loan in accordance with their original contract. Following an assessment of the customer's repayment capacity, a potential solution will be determined from the options available.

There are a number of different types of forbearance options including interest and/or arrears capitalisation, interest rate adjustments, payment holidays, term extensions and equity swaps. These are detailed in Note 20, Credit risk disclosures on pages 98 to 100.

A request for a forbearance solution acts as a trigger for an impairment test.

All loans that are assessed for a forbearance solution are tested for impairment under IAS 39 – Financial Instruments: Recognition and Measurement, and where a loan is deemed impaired, an appropriate provision is raised to cover the difference between the loan's carrying value and the present value of estimated future cash flows discounted at the loan's original effective interest rate. Where, having assessed the loan for impairment and the loan is not deemed to be impaired, it is included within the collective assessment as part of the IBNR provision calculation.

Forbearance mortgage loans, classified as impaired, may be upgraded from impaired status, subject to a satisfactory assessment by the appropriate credit authority as to the borrower's continuing ability and willingness to repay and confirmation that the relevant security held by AIB UK Group continues to be enforceable. In this regard, the borrower is required to display a satisfactory performance following the restructuring of the loan in accordance with new agreed terms, comprising typically, a period of twelve months of consecutive payments of full principal and interest and, the upgrade would initially be to Watch/Vulnerable grades. In some individually assessed mortgage and non-mortgage cases, based on assessment by the relevant credit authority, the upgrade out of impaired to performing status may be earlier than twelve months, as the debt may have been reduced to a sustainable level. Where upgraded out of impaired, loans are included in AIB UK Group's collective assessment for IBNR provisions.

Where the terms on a renegotiated loan which has been subject to an impairment provision differ substantially from the original loan terms either in a quantitative or qualitative analysis, the original loan is derecognised and a new loan is recognised at fair value. Any difference between the carrying amount of the loan and the fair value of the new renegotiated loan terms is recognised in the income statement. Interest accrues on the new loan based on the current market rates in place at the time of the renegotiation.

Where a loan has been subject to an impairment provision and the renegotiation 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.

Non-forbearance renegotiation

Occasionally, AIB UK Group may temporarily amend the contractual repayment terms on a loan (e.g. payment moratorium) for a short period of time due to a temporary change in the life circumstances of the borrower. Because such events are not directly linked to repayment capacity, these amendments are not considered forbearance. The changes in expected cash flows are accounted for under IAS 39 paragraph AG8 i.e. the carrying amount of the loan is adjusted to reflect the revised estimated cash flows which are discounted at the original effective interest rate. Any adjustment to the carrying amount of the loan is reflected in the income statement.

However, where the terms on a renegotiated loan differ substantially from the original loan terms either in a quantitative or qualitative analysis, the original loan is derecognised and a new loan is recognised at fair value. Any difference arising between the derecognised loan and the new loan is recognised in the income statement.

Where a customer's request for a modification to the original loan agreement is deemed not to be a forbearance request (i.e. the customer is not in financial difficulty to the extent that they are unable to repay both the principal and interest), these loans are not disaggregated for monitoring/reporting or IBNR assessment purposes.

2.19 Collateral and 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.

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 in order to reduce credit risk. Collateral received in the form of securities is not recorded on the statement of financial position. Collateral received in the form of cash is recorded on the statement of financial position with a corresponding liability. Therefore, in the case of cash collateral, these amounts are assigned to deposits received from banks or other counterparties. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

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

Netting

Financial assets and financial liabilities are offset and the net amount reported 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

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. Financial guarantees are initially recognised in the financial statements as contingent liabilities at fair value on the date that the guarantee is given. Subsequent to initial recognition, AIB UK Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the year-end reporting date. Any increase in the liability relating to guarantees is taken to the income statement in provisions for undrawn contractually committed facilities and guarantees.

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 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, goodwill 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. Goodwill and intangible assets not yet available for use are subject to an annual impairment review.

The impairment review comprises a comparison of the carrying amount of the asset or cash generating unit with its recoverable amount. Cash-generating units are the lowest level at which management monitors the return on investment in assets. The recoverable amount is determined as the higher of fair value less costs to sell 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 Non-credit risk provisions

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

When the effect is material, provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Payments are deducted from the present value of the provision, and interest at the relevant discount rate, is charged annually to interest expense using the effective interest 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.

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.

Restructuring costs

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

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.

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.

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) and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value and with a maturity of less than three months from the date of acquisition.

2.28 Prospective accounting changes

The following new accounting standards and amendments to existing standards approved by the IASB in 2017 or prior years, 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.

Annual improvements cycles/other

The International Accounting Standards Board ('IASB') has published a number of minor amendments to IFRSs through both standalone amendments and through the Annual Improvements to IFRS Standards 2014-2016 cycle and 2015-2017 cycle. Whilst certain of these have yet to be endorsed by the EU, they are expected to be effective from either 1 January 2018 or 1 January 2019, depending on the amendment.

These amendments are expected to have an insignificant effect on the financial statements.

IFRIC 22, Foreign Currency Transactions and Advance Consideration

IFRIC 22 Interpretation on 'Foreign Currency Transactions and Advance Consideration' which was issued in December 2016 clarifies the requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

Effective date:

Annual periods beginning on or after 1 January 2018.

IFRIC 23, Uncertainty over Income Tax Treatments

IFRIC 23 Interpretation on 'Uncertainty over Income Tax Treatments' which was issued in June 2017 clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments that have yet to be accepted by the tax authorities.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

Effective date:

Annual periods beginning on or after 1 January 2019.

IFRS 15, Revenue from Contracts with Customers

IFRS 15, which was issued in May 2014 including amendments/clarifications to IFRS 15 issued in September 2015 and April 2016 replaces IAS 11 Construction Contracts and IAS 18 Revenue in addition to IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31.

IFRS 15 specifies how and when an entity recognises revenue from a contract with a customer through the application of a single, principles based five-step model. The standard specifies new qualitative and quantitative disclosure requirements to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

An AIB Group-wide project was rolled out where the various types of revenue streams were identified and analysed. However, due to the nature of these revenue streams, no significant change to the currently reported amounts in AIB UK Group's financial statements were highlighted as a result of the analysis.

On transition, while AIB UK Group will apply this standard retrospectively, it will exercise certain practical expedients, as allowed by the standard. Prior periods will not be restated and the opening balance of retained earnings will be adjusted for any prior period impacts.

Additionally, for contracts completed before the earliest period presented, AIB UK Group will not be restating the opening balance of retained earnings.

Accordingly, it is expected that any impact will be minimal to retained earnings on transition at 1 January 2018.

IASB effective date

Annual periods beginning on or after 1 January 2018.

IFRS 9, Financial Instruments

With effect from 1 January 2018, IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes a revised classification and measurement model, a forward looking expected credit loss ('ECL') impairment methodology and modifies the approach to hedge accounting. The key changes under the standard are:

Classification and measurement

Financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics. The classification and measurement categories are amortised cost, fair value through other comprehensive income and fair value through profit and loss:

- A financial asset is measured at amortised cost if two criteria are met: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI');
- If a financial asset is eligible for amortised cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch;
- Interest is calculated on the gross carrying amount of a financial asset, except where the asset is credit impaired in which case interest is calculated on the carrying amount after deducting the impairment provision;
- There is no separation of an embedded derivative where the instrument is a financial asset;
- Equity instruments must be measured at fair value, however, an entity can elect on initial recognition to present fair value changes, including any related foreign exchange component on non-trading equity investments directly in other comprehensive income. There is no subsequent recycling of fair value gains and losses to profit or loss, however, dividends from such investments will continue to be recognised in profit or loss;
- The classification of financial liabilities is essentially unchanged, except that, for certain liabilities measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in other comprehensive income.

Impairment

- Requires more timely recognition of expected credit losses using a three stage approach. For financial assets where there has been no significant increase in credit risk since origination, a provision for 12 months expected credit losses is required. For financial assets where there has been a significant increase in credit risk or where the asset is credit impaired, a provision for full lifetime expected losses is required;

- The assessment of whether credit risk has increased significantly since origination is performed for each reporting period by considering the change in risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in expected credit loss.

The assessment of credit risk, and the estimation of expected credit loss, are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of expected credit loss should take into account the time value of money. As a result, the recognition and measurement of impairment is more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month expected credit loss and the population of financial assets to which lifetime expected credit loss applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The standard does not explicitly address macro hedge accounting strategies, which are being considered in a separate project. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting.

Assessment of IFRS 9 impacts for AIB UK Group

An AIB Group-wide programme ("the Programme"), led jointly by Risk and Finance, commenced work during 2015 to oversee delivery of the requirements for implementation of IFRS 9. The varying aspects of IFRS 9 are operational with effect from 1 January 2018, i.e. the date of initial application and this programme is currently transitioning to 'business as usual'.

AIB UK Group is not restating prior periods as allowed in IFRS 9, paragraph 7.2.15. However, as required by this paragraph, if prior periods are not restated, AIB UK Group is recognising any difference arising between IAS 39 carrying amounts and IFRS 9 carrying amounts at 1 January 2018 in opening retained earnings (or in other comprehensive income, as applicable) at 1 January 2018.

The business model assessment test was performed as at the date of initial application. This classification applies retrospectively. AIB UK Group assessed whether the financial assets met the conditions for recognising a change in the classification/measurement basis at that date.

Impairment losses will be measured at the date of initial application under the 'expected credit loss model' set out in IFRS 9.

AIB UK Group will apply IFRS 9 as issued at 1 January 2018 and will early adopt the amendments to IFRS 9 on the same date.

AIB UK Group will continue to refine this estimate during the transition period as new processes and systems are deployed and embedded.

Set out below is a summary of the impacts of IFRS 9 together with policy choices selected by AIB UK Group where relevant:

Classification and measurement

Classification and measurement of financial assets will not result in any significant changes for AIB UK Group.

In general:

- Loans and receivables to banks and customers that are currently classified as 'loans and advances' under IAS 39 will be measured at amortised cost under IFRS 9;

- Debt securities classified as available for sale under IAS 39 will be measured at fair value through other comprehensive income ('FVOCI');

- Equity securities will continue to be measured at fair value. All equity securities held at 31 December 2017 will be measured under IFRS 9 at fair value through profit or loss. Under IAS 39, all equity securities, were classified as available for sale with fair value movements reported in 'other comprehensive income'.

The business model assessment which was carried out on the portfolio did not result in any change to the current measurement basis at AIB UK Group level.

In relation to SPPI testing which was carried out on the financial instruments portfolio, all items passed the SPPI test. Should any be identified in the future, such instruments will be measured at fair value through profit or loss in accordance with IFRS 9.

Fair value movements on these instruments will be shown in profit or loss. The impact on transition to this new measurement basis is immaterial.

AIB UK Group has not currently opted to designate any financial assets at fair value through profit or loss as permitted by IFRS 9 when certain conditions are met.

AIB UK Group's classification of financial liabilities is unchanged. AIB UK Group measures financial liabilities at amortised cost subsequent to initial recognition. Given that AIB UK Group does not fair value its own debt, there is no impact as a result of changes required under IFRS 9.

AIB UK Group has set up governance structures for the on-going validation of its business models and for ensuring that financial instruments failing the SPPI test are correctly identified at initial recognition.

Impairment

The new impairment requirements in IFRS 9 are based on an expected credit loss model and replace the IAS 39 incurred loss model.

The key policy principles are summarised below.

Significant increase in credit risk

AIB UK Group's assessment of significant increase in credit risk is determined based on both quantitative and qualitative criteria. The quantitative criteria measures the change in credit risk arising from changes in the probability of default since origination.

AIB UK Group has determined thresholds for significant increase in credit risk on both a percentage and absolute change in lifetime probability of default ('PD') relative to the PD at initial recognition. AIB UK Group will periodically review the quantitative criteria to ensure that they remain valid.

The qualitative criteria is the measure that reflects the change in credit risk of a financial asset based on AIB UK Group's credit management and the individual characteristics of the financial asset. The qualitative assessment is not model driven and seeks to capture any deterioration or improvement in credit quality that may not have been already captured by the quantitative criteria. The qualitative assessment reflects pro-active credit management. AIB UK Group's key qualitative criteria are summarised as:

- A credit downgrade resulting in enhanced case management and monitoring;
- Forbearance has been provided to the customer and the loan is in a probationary period and whilst the terms have been modified, the loan has not been derecognised;
- AIB UK Group has adopted 30 days past due as its backstop for determining a significant increase in credit risk.

Definition of Default

The definition of credit impairment (stage 3) is aligned with AIB UK Group's definition of default, with the exception of loans that meet derecognition criteria and are subsequently restructured. These are classified as stage 1 at the point of restructure. AIB UK Group identifies defaults by using a number of characteristics, which may occur sequentially or simultaneously. The 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;
- The credit obligor is 90 days or more past due on any material credit obligation.

Inputs to measurement of Expected Credit Losses ('ECL')

The key inputs to the models in the measurement of ECLs are:

- Probability of Default (PD): The PD model estimates the probability of an account defaulting within 12 months from observation or where significant increase in credit risk has occurred, over its residual life;

- Loss Given default (LGD): The LGD model estimates the loss on an exposure if the account were to default within (a) the following 12 months or (b) over the residual contractual maturity;
- Exposure at Default (EAD): The EAD model calculates the expected EAD at date of default in the next 12 months or over the life of the loan where significant credit deterioration has occurred;
- Prepayment (PP): The PP model estimates the probability of a customer prepaying the exposure.

Models have been developed for the following key portfolios:

(i) Personal loans and overdrafts;

(ii) Personal mortgages;

(iii) Small sized SMEs (Small business);

(iv) Commercial real estate;

(v) Medium-sized SMEs and corporates.

In addition, management judgement taking account of alternative scenarios relating to specific portfolios, including disposals have been incorporated in to the ECL estimates.

AIB UK Group continues to use discounted cash flows ('DCFs') predominantly for non-retail exposures as a key input to the estimation of weighted average ECLs. DCFs represent the best estimate of loss taking account of forward looking information, base case economic conditions and case specific attributes. Scalars are applied to the resultant outputs to reflect a probability weighted outcome.

Forward looking macroeconomic scenarios
AIB UK Group uses macroeconomic scenarios for IFRS 9 that are consistent with those used for financial planning and stress testing purposes as they reflect the AIB UK Group view of possible outcomes at a point in time without introducing undue conservatism.

Low credit risk portfolios
Financial assets held within the bank and sovereign portfolios are practically all investment grade. The standard contains practical expedient that, if a financial instrument has low credit risk, then an entity is allowed to assume at the reporting date that no significant increase in credit risk has occurred. Accordingly, the AIB UK Group has recognised an impairment allowance based on 12-month ECLs for such low risk instruments.

Hedge accounting
IFRS 9 includes an accounting policy choice which allows entities to remain with IAS 39 hedge accounting requirements until macro hedge accounting is addressed by the IASB as part of a separate project. AIB UK Group will exercise this policy choice and continue to account under IAS 39. However, it will implement the revised hedge accounting disclosures required by the amendments to IFRS 7.

Disclosures/other
A significant suite of reporting requirements have been developed for statutory, regulatory and management reporting in line with the requirements of IFRS 9 and the various regulatory bodies. In so far as possible, definitions of data items within reports have been aligned so as to assist comparability. In addition, a suite of transitional disclosure templates have been prepared and will be populated and published as relevant during 2018.

Briefings to the business and various stakeholders throughout the AIB UK Group have taken place and will continue.

Amendments to IFRS 9 'Prepayment Features with Negative Compensation'
Under the current IFRS 9 requirements, the SPPI condition is not met if the lender has to make a settlement payment in the event of termination by the borrower (also referred to as early repayment gain).

In October 2017, the IASB issued an amendment to IFRS 9 titled 'Prepayment Features with Negative Compensation'. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow an entity to measure certain prepayable financial assets with so-called negative compensation (also known as two way break clauses) at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

Prior to this amendment, financial assets with this negative compensation feature would have failed the SPPI test and be mandatorily measured at fair value through profit or loss. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain.

The amendment will be effective for annual periods beginning 1 January 2019, with early adoption permitted. AIB UK Group expects to early adopt this amendment on 1 January 2018 which is the date of transition to IFRS 9. The amendment will not have a material impact on AIB UK Group's consolidated financial statements.

Based on assessments undertaken to date, the total estimate of the possible impact on transition is £25million (£20million net of deferred tax) representing a reduction in revenue reserves, principally due to the impairment requirements. The estimated possible impact on capital is discussed in the Capital Management Section of this report, on page 15.

The amendments have yet to be endorsed by the EU.

IFRS 16, Leases

IFRS 16 Leases, which was issued in January 2016, replaces 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 its incremental borrowing rate.

Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained.

IFRS 16 will impact AIB UK Group as it is the lessee of a number of properties which are classified under IAS 17 as operating leases.

AIB UK Group will avail of certain practical expedients on transition. AIB UK Group will not apply the requirements of IFRS 16 to short-term leases, i.e. those at the commencement of a lease that have a lease term of 12 months or less. Likewise, AIB UK Group will not capitalise leases where the underlying asset when new is of low value.

On transition, AIB UK Group will apply this standard retrospectively for leases previously classified as operating leases and will recognise the cumulative effect of applying the standard as an adjustment to the opening balance of retained earnings at the date of initial application. Lease liabilities will be measured at the present value of the remaining lease payments discounted at AIB UK Group's incremental borrowing rate at the date of initial application. The right-of-use assets will be measured at an amount equal to the lease liabilities. For right-of-use assets that are impaired on transition, AIB UK Group will avail of the practical expedient allowed by the standard and rely on its assessment of whether leases are onerous as an alternative to performing an impairment review.

Accordingly, it will adjust the right-of-use asset at the date of initial application by the amount of any provision for onerous leases recognised in the statement of financial position immediately before the date of initial application.

AIB UK Group is currently assessing its impact and it is estimated that assets and liabilities in the statement of financial position will increase by less than £1m on implementation. Whilst the overall impact of IFRS 16 will be neutral on the income statement over the life of a lease, its implementation will result in a higher charge in the earlier years following implementation with a lower charge in later years. The estimated impact on the income statement in the first year following implementation will be minimal.

IASB effective date
Annual periods beginning on or after 1 January 2019.

3. Critical accounting judgements and estimates

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

The 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.

Loan impairment

AIB UK Group's accounting policy for impairment of financial assets is set out in note 2.18. The provisions for impairment on loans and receivables at 31 December 2017, set out in note 19, represent management's best estimate of the losses incurred in the loan portfolios at the reporting date.

The estimation of loan losses is inherently uncertain and depends upon many factors, including expected trends in delinquency rates, assessment of borrower quality, collateral recovery estimates, economic conditions in the various sectors to which AIB UK Group is exposed, and other external factors such as legal and regulatory requirements.

Credit quality and loan loss provisioning are independently monitored by credit and risk management on a regular basis. AIB UK Group assesses its provisions and provision adequacy on a quarterly basis. These provisions are reviewed and approved by the AIB UK Group Credit Committee and the Parent Group Credit Committee on a quarterly basis, with ultimate AIB UK Group levels being approved by the UK Audit Committee and the UK Board.

Key assumptions underpinning AIB UK Group's estimates of collective and IBNR provisioning are back tested with the benefit of experience and revisited for currency movements on a regular basis.

Specific provisions

A specific provision is made against problem loans when, in the judgement of management, the estimated repayment realisable from the obligor, including the value of any security available, is likely to fall short of the amount of principal and interest outstanding from the obligor. The amount of the specific provision made in the financial statements is intended to cover the difference between the assets' carrying value and the present value of estimated future cash flows discounted at the assets' original effective interest rates.

The amount of specific provision required on an individually assessed loan is highly dependent on estimates of the amount of future cash flows and their timing. Individually insignificant impaired loans are collectively evaluated for impairment provisions based on current observed loss rates in individual portfolio segments.

Incurred but not reported provisions

IBNR provisions are maintained at levels that are deemed appropriate by management having considered: credit grading profiles and grading movements; historic loan loss rates; changes in credit management; procedures, processes and policies; levels of credit management skills; local and international economic climates; portfolio sector profiles/industry conditions; and current estimates of loss in the portfolio.

The total amount of impairment loss in AIB UK Group's non-impaired portfolio, and therefore, the adequacy of the IBNR allowance, is inherently uncertain. There may be factors in the portfolio that have not been a feature of the past and changes in credit grading profiles and grading movements may lag the change in the credit profile of the customer.

In addition, current estimates of loss within the non-impaired portfolio and the period of time it takes following a loss event for an individual loan to be recognised as impaired ('emergence period') are subject to variation based on UK economic conditions.

Deferred taxation

AIB UK Group's accounting policy for deferred tax is set out in note 2.11 and details of AIB UK Group's deferred tax assets and liabilities are set out in note 27.

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 because of the period over which recovery extends. The factors considered by management in making these judgements are disclosed in Deferred taxation note 27.

Determination of fair value of financial instruments

AIB UK Group's accounting policy for the determination of fair value of financial instruments is set out in note 2.15.

The best evidence of fair value is quoted prices in an active market. The absence of quoted prices increases reliance on valuation techniques and requires the use of judgement in the estimation of fair value. This judgement includes but is not limited to: evaluating available market information; determining the cash flows for the instruments; identifying a risk free discount rate and applying an appropriate credit spread. Valuation techniques that rely to a greater extent on non-observable data require a higher level of management judgement to calculate a fair value than those based wholly on observable data. Details of the fair value of AIB UK Group's financial instruments together with information on the methods used to calculate the fair values are set out in note 37.

Retirement benefit obligations

AIB UK Group's accounting policy for retirement benefit plans is set out in note 2.9. The AIB Group (UK) Pension Scheme (the UK Scheme), a funded benefit scheme was closed to new members from December 1997 and was closed to future accrual for all existing employees from 31 December 2013. Judgement and estimates are involved in determining the valuation of the scheme assets and liabilities that are reported in the financial statements.

Scheme assets are valued at fair value. Scheme liabilities are measured on an actuarial basis, using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

In calculating the scheme liabilities and the charge to the income statement, the Directors have chosen a number of financial and demographic assumptions within an acceptable range, under advice from the Company's actuaries which include price inflation, pension increases, earnings growth 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 11 to the financial statements, together with a sensitivity analysis of the scheme liabilities to changes in those assumptions.

4. Interest and similar income

	2017 £m	2016 £m
Interest on loans and receivables to banks	37	48
Interest on loans and receivables to customers	216	220
Interest from finance leasing and hire purchase contracts	7	7
Interest and similar income	**260**	**275**

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 £260m (2016: £275m).

Interest income recognised on impaired loans amounts to £2m (2016: £5m).

5. Interest expense and similar charges

	2017 £m	2016 £m
Interest on deposits by banks	24	35
Interest on customer accounts	25	33
Interest on debt securities in issue	1	2
Interest expense and similar charges	**50**	**70**

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 £50m (2016: £70m).

6. Net fee and commission income

	2017 £m	2016 £m
Retail banking customer fees	26	29
Credit related fees	10	10
Credit card commission	4	4
Other fees and commission	8	8
Fee and commission income	**48**	**51**
Fee and commission expense	**(6)**	**(6)**
Net fee and commission income	**42**	**45**

7. Net trading and other financial income

	2017 £m	2016 £m
Foreign exchange contracts	9	9
Interest rate contracts	2	(1)
Equity index contracts and warrants[1]	(2)	-
Net trading and other financial income	**9**	**8**

[1] In 2017 AIB Joint Venture Limited, a subsidiary of AIB UK, reassessed the value of an equity warrant that it holds which resulted in recognition of a loss of £2m.

8. Other operating income

	2017 £m	2016 £m
Dividend income	2	5
Profit on disposal of financial investments available for sale[1]	6	21
Profit/(loss) on disposal of loans and receivables to customers[2]	4	(2)
Miscellaneous operating income	-	3
Other operating income	**12**	**27**

[1] A gain of £6m was realised on the disposal of AIB UK's equity interest in Vocalink in 2017. A gain of £20m was realised on the disposal of AIB UK's equity interest in Visa Europe in June 2016 and a profit of £1m was made on the disposal of Visa Inc. shares to AIB plc in September 2016 (see note 37).

[2] During 2017, AIB UK Group sold two portfolios of loans to third parties. The first loan portfolio, which had a net book value of £1m was sold in May 2017 for a consideration of £5m. After taking into account selling and other costs, a profit on disposal of £2m was recorded on this transaction. In December 2017 a second portfolio of loans, with a net book value of £53m was sold for a consideration of £64m. After taking into account selling, post signing movement and other costs, a profit on disposal of £2m was recorded on this transaction. See also Other assets note 23, for further detail on this sale. In 2016 a loss of £2m was incurred when the final settlement of consideration was made for a portfolio of loans sold in 2015.

9. Administrative expenses

	2017 £m	2016 £m
Wages and salaries	76	58
Social security costs	6	7
Pension costs		
- Defined contribution plans (note 11)	8	8
- Defined benefit plans (note 11)	(12)	(17)
Other personnel expenses	9	9
Personnel expenses	**87**	**65**
Operating lease rentals – property and equipment	6	3
Other administrative expenses	55	48
General and administrative expenses	**61**	**51**
Administrative expenses	**148**	**116**

On 21 May 2012, the AIB Group announced the specific terms of a voluntary exit programme which included both an early retirement scheme and a voluntary severance scheme. In 2017 an accrual of £3.1m (2016: £0.2m) was made in respect of termination benefits arising from the voluntary severance programme. The charge included in wages and salaries in 2017 for voluntary severance payments is £19m (2016: £2m).

There is a charge included within administrative expenses in 2017 of £1m (2016: £2m) in respect of the Financial Services Compensation Scheme ('FSCS') levy. A provision has been made for the potential levy payable for 2018/19 based on AIB UK Group's deposits at 31 December 2017 and is included within the Provision for liabilities and commitments in the income statement (note 32).

The average number of employees of AIB UK Group and AIB UK during the year was 1,218 (2016: 1,349).

In the past, AIB Group UK sponsored a number of employee share schemes whereby eligible staff could acquire shares in the Parent Group. These schemes are no longer operational.

10. Profit on disposal of business assets

	2017 £m	2016 £m
Profit on disposal of business assets	-	**1**

Subsidiary company First Trust Financial Services Limited, which ceased providing advice to customers from 31 December 2012, sold its back book to Wren Sterling Financial Planning Limited in 2016. This resulted in a profit on disposal of the revenue generating assets of this business of £1m.

11. Retirement benefits

AIB UK Group operates a defined contribution scheme and a funded defined benefit scheme for employees. The defined benefit scheme (the UK Scheme) was closed for future accrual from 31 December 2013.

Defined contribution scheme

Employees joining after December 1997 joined on a defined contribution basis with an enhanced matched contribution scheme being available from 1 January 2009. With the closure of the UK defined benefit scheme to future accrual, all eligible employees became members of the UK defined contribution scheme on 1 January 2014. The 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 additional amount for Permanent Health Insurance (PHI) in respect of these members.

The cost of the defined contribution scheme for 2017 was £8m (2016: £8m) and is included in administrative expenses (note 9).

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 2017 is 19 years (2016: 20 years).

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 next valuation, as at 31 December 2017, is expected to be available towards the end of 2018. The previous triennial valuation was carried out as at 31 December 2014 using the Projected Unit Method. The results of that valuation were issued by Mercer Limited on 22 December 2015 and concluded that the Notional Annual Contribution Amount payable by the AIB UK Group to the Trustees of the UK Scheme would be £19m per annum payable quarterly with effect from 2016.

Governance

The Trustees of the UK Scheme are ultimately responsible for the governance of the scheme.

Asset-liability matching strategy

The UK Scheme implemented a de-risking investment strategy in 2013 that included the elimination of all equity investments and the investment of assets in a combination of bonds and liability matching instruments. At 31 December 2017 40% (2016: 44%) of assets were invested in liability driven investments and 41% (2016: 37%) invested in bonds. A longevity swap was also entered into on 22 December 2016 to reduce the risk relating to mortality rates.

Asset backed funding

In October 2013, the Parent Group executed a series of agreements to give effect to an asset backed funding plan for the UK Scheme which replaced the previous funding plan. This asset backed funding plan grants 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 reveals a deficit, then the UK Scheme will 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 ('SLP'), to which a portfolio of loans from another Parent Group entity, AIB UK Loan Management Limited ('UKLM') was 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 will be used to meet the future funding requirements of the UK Scheme. These funding requirements will change over time as the triennial valuation is updated and the agreement between the Parent Group and the UK Scheme allows for such variability in payments from the cash flows of the SLP assets. Based on the results of the 2014 triennial valuation, which agreed an annual contribution of £19m, the first quarterly instalment of £4.7m, was made in April 2016. In 2017 contributions of £19m (2016: £14m) had been received by the UK scheme in the form of a transfer of cash from the SLP to the UK scheme assets.

At 31 December 2017, the UK Scheme recognised an additional £265m (2016: £308m) of assets from UKLM as a result of this SLP arrangement, resulting in a net defined benefit asset of £419m at 31 December 2017 (2016: £445m). 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 2017 was £154m (2016: £137m).

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 2017, £184m (2016: £79m) of the benefits paid from the UK Scheme related to lump sum transfer values taken under the terms of the UK Scheme.

Movement in defined benefit obligation and scheme assets

The following tables set out the movement in the defined benefit obligation and UK Scheme assets during 2017 and 2016.

			2017			2016
	Defined benefit obligation	Fair value of scheme assets	Net defined benefit asset/ (liability)	Defined benefit obligation	Fair value of scheme assets	Net defined benefit asset/ (liability)
	£m	£m	£m	£m	£m	£m
At 1 January	(1,141)	1,586	445	(944)	1,368	424
Included in income statement						
Interest (cost)/income	(28)	40	12	(35)	52	17
Included in other comprehensive income						
Remeasurements gain/(loss)						
Actuarial loss/(gain) arising from:						
- Experience adjustments	(29)	-	(29)	9	-	9
- Changes in demographic assumptions	35	-	35	(9)	-	(9)
- Changes in financial assumptions	(20)	-	(20)	(266)	-	(266)
Return on scheme assets excluding SLP	-	8	8	-	234	234
Contribution of asset from SLP to Scheme assets	-	19	19	-	14	14
Return on SLP assets	-	(51)	(51)	-	22	22
	(14)	(24)	(38)	(266)	270	4
Other						
Benefits paid	209	(209)	-	104	(104)	-
At 31 December	**(974)**	**1,393**	**419**	**(1,141)**	**1,586**	**445**

Fair value of plan assets
The following table sets out the fair value of the assets held by the UK Pension Scheme

	2017		2016	
	Value £m	Plan assets %	Value £m	Plan assets %
Bonds	576	41	585	37
Liability Driven Investments	553	40	690	44
Cash	3	-	3	-
Longevity hedge	(4)	-	-	-
SLP	265	19	308	19
Fair value of plan assets	**1,393**	**100**	**1,586**	**100**
Actuarial value of liability	(974)		(1,141)	
Surplus in scheme	**419**		**445**	
Related deferred tax liability (note 27)	(105)		(111)	
Net pension asset	**314**		**334**	

The 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 longevity swap was entered into on 22 December 2016 and the fair value of this swap at 31 December 2017 was negative £4m (2016: nil).

The SLP assets recognised by the UK Scheme at 31 December 2017 is management's best estimate of the valuation based on a deterministic valuation provided by the Trustees' investment consultants. An updated valuation of the SLP assets, using stochastic modelling, is provided upon completion of the Scheme's actuarial report at 31 December 2017.

Deferred taxation is provided on the defined pension scheme surplus at the rate of 25% (2016: 25%) being the expected corporation tax rate of 17% plus the UK bank surcharge of 8%.

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	2017 %	2016 %
Rate of increase of pensions in payment	3.1	3.2
Discount rate	2.5	2.7
Inflation assumptions:		
- Retail Price Index (RPI)	3.1	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.

Mortality assumptions

The mortality tables used in the assumptions were updated in 2015 as a result of the mortality analysis carried out as part of the Trustee's triennial actuarial valuation as at 31 December 2014. An updated future mortality projection model was adopted at the same time. The mortality tables used for both 2017 and 2016 are based on SN2A tables ('light' for males) weighted by 102% (males) and 88% (females) with a 1.5% per annum underpin which is based on data collected by the Continuous Mortality Investigation ('CMI'). In advance of the next triennial valuation, the CMI data was reviewed and CMI 2016 used for the 31 December 2017 mortality assumption (2016: CMI 2014). 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 2017 and 2016 are as set out below.

	Retiring today at age 63		Retiring at age 63, currently aged 53	
Life expectancy from age 63	**2017**	**2016**	**2017**	**2016**
Male	25.1	25.7	26.0	26.8
Female	27.0	27.9	28.0	29.1

Sensitivity of assumptions

The following table shows the sensitivity of the valuation to changes in significant actuarial assumptions:

As at 31 December	2017 £m	2016 £m
Discount rate		
a. Discount rate -25 basis points	1,023	1,202
Assumption	2.25%	2.45%
b. Discount rate +25 basis points	928	1,085
Assumption	2.75%	2.95%
Weighted average duration of defined benefit	19	20
Inflation rate		
a. Inflation rate -25 basis points	930	1,088
RPI inflation assumption	2.85%	2.95%
b. Inflation rate +25 basis points	1,020	1,198
RPI inflation assumption	3.35%	3.45%
Mortality		
a. Minus one year age rating	1,004	1,176
b. Plus one year age rating	944	1,107
Mortality assumption	**SN2A ("light" for males) year of birth tables weighted by 102% (males) and 88% (females), and rated down (and up) by one year for both males and females with CMI 2016 future improvements with a 1.5% per annum long term rate of improvement**	SN2A ("light" for males) year of birth tables weighted by 102% (males) and 88% (females), and rated down (and up) by one year for both males and females with CMI 2014 future improvements with a 1.5% per annum long term rate of improvement

History of defined benefit pension plan	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Plan assets	1,393	1,586	1,368	1,414	1,090	870
Defined benefit obligation	(974)	(1,141)	(944)	(1,022)	(852)	(893)
Surplus/(deficit) in defined benefit pension plan	**419**	**445**	**424**	**392**	**238**	**(23)**

12. Auditor's remuneration

Auditor's remuneration is included within other administrative expenses in the income statement. The charges included in 2017 and 2016, 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.

	2017 £'000	2016 £'000
Audit fees for statutory audit [1]	264	260
Other assurance services (including regulatory compliance work)	55	70
Audit of pension schemes associated with AIB UK Group	58	51
Other non-audit services [2]	17	123
Auditor's remuneration	**394**	**504**

In addition to the above fees, Deloitte LLP received an audit fee in 2016 of £30k in relation to the audit of Tenterden Funding plc, which is paid by that company, see note 15. No audit fee is payable for 2017 since the securitisation was terminated in June 2017.

[1] The audit of subsidiaries is included within the statutory audit fee.

[2] In conjunction with the Financial Conduct Authority in the UK, Deloitte LLP were appointed to undertake a Section 166 Review in AIB UK Group in 2012. Since 20 June 2013, the date Deloitte were appointed Parent Group Auditor, £8.5 million has been paid to Deloitte LLP. Deloitte LLP involvement in the review concluded in early 2017.

13. Taxation on ordinary activities

	2017 £m	2016 £m
UK corporation tax on profits for the period	12	27
Adjustments in respect of prior periods	3	1
Current tax	**15**	**28**
Origination and reversal of temporary differences	3	7
Changes in tax rates	-	9
Deferred tax on losses not recognised		
- Current period	(14)	(17)
Reduction in carrying value of deferred tax asset in respect of losses	-	77
Deferred tax[1]	**(11)**	**76**
Total tax expense	**4**	**104**

[1] See Deferred taxation note 27.

The tax charge for the period is lower (2016: higher) than the 2017 standard average rate of corporation tax in the UK of 19.25% (2016: 20.00%). The differences are explained below:

	2017 £m	2016 £m
Corporation tax charge at standard average rate	20	34
Effects of:		
Expenses not deductible for tax purposes	1	-
Exempted income, income at reduced rates and tax credits	(2)	(1)
Income taxed at bank surcharge rate	3	10
Deferred tax assets not recognised/reversal of amounts previously not recognised	(18)	(25)
Other differences	(3)	(1)
Change in tax rates	-	9
Impact of change in tax legislation on deferred tax asset	-	77
Adjustments to tax charge in respect of previous years	3	1
Total tax expense	**4**	**104**

At 31 December 2017 the current taxation balance of AIB UK Group was a liability of £4m (2016: £12m).

14. Dividends on equity shares

No dividends were paid during 2017 or 2016.

15. Transfer of financial assets

Securitisation of residential mortgages

On 9 May 2012, AIB UK securitised a portion of its residential mortgage portfolio in order to support the funding activities of AIB UK Group. The mortgages were transferred to a securitisation vehicle, Tenterden Funding p.l.c. ('Tenterden'). In order to fund the acquired mortgages, Tenterden issued class A notes to external investors and class B notes to AIB UK. However, in accordance with the derecognition requirements of IAS 39, the transferred mortgages were not derecognised and continued to be reported in AIB UK's accounts. Tenterden was consolidated into the AIB UK Group accounts with the class B notes being eliminated on consolidation. The liability in respect of cash received by Tenterden from the external investors was included within 'Debt securities in issue' (note 30) on the statement of financial position at 31 December 2016.

As the securitisation was no longer required to fund AIB Group UK activities in 2017, a call option to mature the class A notes early was exercised on 21 June 2017. The class A and class B notes were settled and the mortgages with a carrying value of £168m were transferred back from Tenterden to AIB UK. There were no loans and receivables transferred but not derecognised at 31 December 2017. The carrying value of the financial assets (loans and receivables) transferred but not derecognised and the liability due to external investors at 31 December 2016 was as follows:

	2017 £m	2016 £m
Loans and receivables to customers		
Carrying amount of assets currently recognised	-	177
Carrying amount of associated liabilities currently recognised	-	59

Continuing involvement in derecognised financial assets

Transfers to 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 Group however AIB UK Group retains servicing rights in respect of the transferred financial assets which represents continuing involvement with those assets. Under the servicing arrangements AIB UK Group collects the cash flows on the transferred assets on behalf of AIB UKLM and in return AIB UK Group receives a fee to compensate adequately for performing the servicing of these assets.

Sale of Assets to a Third Party

AIB UK Group sold a portfolio of loans to a third party in May 2017 and the loans were derecognised from the balance sheet at that date. AIB UK continued to service the loans on behalf of the purchaser until transition was complete and the loans transferred in August 2017. AIB UK Group received an immaterial fee for servicing the loans while they were in transition, see note 8.

AIB UK Group sold a further portfolio of loans to a third party on 15 December 2017, as outlined in note 23, Other assets. The loans were derecognised from the balance sheet at that date, however, AIB UK Group will continue to service the loans on behalf of the purchaser until transition is completed in April 2018. AIB UK Group is providing this servicing of the loans at an immaterial charge while they are in transition.

AIB UK Group sold a portfolio of loans to a third party on 14 December 2015 and the loans were derecognised from the balance sheet at that date, however, AIB UK Group continued to service the loans on behalf of the purchaser until transition was complete in 2016. The majority of the loans transferred in April 2016, with the remaining loans transferred in June 2016. AIB UK Group received an immaterial fee for servicing the loans while they were in transition.

16. Derivative financial instruments

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

For accounting purposes, derivative instruments are classified as held either for trading or hedging. Derivatives that are held as hedging instruments are formally designated as hedges as defined in IAS 39. All other derivative instruments are classified as held for trading. When entering into derivative transactions, AIB UK Group uses the same credit control and risk management procedures to assess and approve potential credit exposures as are used for traditional lending.

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 IAS 39.

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

Hedging derivatives

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

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

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

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

Cash flow hedges

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

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

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

The net movement in derivatives designated as cash flow hedges recognised directly in equity through the statement of comprehensive income during 2017 is set out in note 34.

The following table shows the notional amounts of derivative financial instruments, for AIB UK and AIB UK Group, analysed by product and purpose at 31 December 2017 and 2016.

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

AIB UK Group	2017 Notional principal amount £m	2017 Fair values Assets £m	2017 Fair values Liabilities £m	2016 Notional principal amount £m	2016 Fair values Assets £m	2016 Fair values Liabilities £m
Derivatives held for trading:						
Foreign exchange derivatives total	**250**	**4**	**(3)**	**303**	**10**	**(10)**
Interest rate swaps	1,434	90	(105)	1,162	107	(126)
Interest rate options	193	-	-	171	-	-
Interest rate contracts total	**1,627**	**90**	**(105)**	**1,333**	**107**	**(126)**
Equity warrants	-	-	-	2	2	-
Equity index contracts total	-	-	-	2	2	-
Total trading contracts	**1,877**	**94**	**(108)**	**1,638**	**119**	**(136)**
Derivatives held for hedging:						
Interest rate swaps	3,882	18	(8)	2,929	36	(5)
Derivatives designated as cash flow hedges total	**3,882**	**18**	**(8)**	**2,929**	**36**	**(5)**
Total derivative financial instruments	**5,759**	**112**	**(116)**	**4,567**	**155**	**(141)**

AIB UK	2017 Notional principal amount £m	2017 Fair values Assets £m	2017 Fair values Liabilities £m	2016 Notional principal amount £m	2016 Fair values Assets £m	2016 Fair values Liabilities £m
Derivatives held for trading:						
Foreign exchange derivatives total	**250**	**4**	**(3)**	**303**	**10**	**(10)**
Interest rate swaps	1,434	90	(105)	1,162	107	(126)
Interest rate options	193	-	-	171	-	-
Interest rate contracts total	**1,627**	**90**	**(105)**	**1,333**	**107**	**(126)**
Total trading contracts	**1,877**	**94**	**(108)**	**1,636**	**117**	**(136)**
Derivatives held for hedging:						
Interest rate swaps	3,882	18	(8)	2,929	36	(5)
Derivatives designated as cash flow hedges total	**3,882**	**18**	**(8)**	**2,929**	**36**	**(5)**
Total derivative financial instruments	**5,759**	**112**	**(116)**	**4,565**	**153**	**(141)**

Cash flow hedges
The table below sets out the hedged cash flows which are expected to occur in the following periods:

AIB UK Group & AIB UK	Within 1 Year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	More than 5 years £m	2017 Total £m
Forecast receivable cash flows	12	11	26	17	**66**
Forecast payable cash flows	3	2	2	-	**7**

AIB UK Group & AIB UK	Within 1 Year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	More than 5 years £m	2016 Total £m
Forecast receivable cash flows	8	5	18	22	**53**
Forecast payable cash flows	1	1	1	-	**3**

The table below sets out the hedged cash flows which are expected to impact the income statement in the following periods:

AIB UK Group & AIB UK	Within 1 Year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	More than 5 years £m	2017 Total £m
Forecast receivable cash flows	12	11	26	17	**66**
Forecast payable cash flows	3	2	2	-	**7**

AIB UK Group & AIB UK	Within 1 Year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	More than 5 years £m	2016 Total £m
Forecast receivable cash flows	8	5	18	22	**53**
Forecast payable cash flows	1	1	1	-	**3**

For AIB UK Group, the ineffectiveness reflected in the income statement that arose from cash flow hedges is nil (2016: nil). The total amount recognised in other comprehensive income net of tax in respect of cash flow hedges was a charge of £14m (2016: income of £25m).

17. Loans and receivables to banks

	AIB UK Group		AIB UK	
	2017	2016	2017	2016
	£m	£m	£m	£m
Funds placed with the Bank of England	475	485	475	485
Funds placed with other banks	490	2,176	490	2,161
Loans and receivables to banks	**965**	**2,661**	**965**	**2,646**
Amounts include:				
Due from AIB plc and fellow subsidiaries	461	2,127	461	2,127
External rating:				
AA/AA-	500	498	500	485
A-/A/A+	3	36	3	34
BB+	-	2,127	-	2,127
BBB+	1	-	1	-
BBB-	461	-	461	-
Loans and receivables to banks	**965**	**2,661**	**965**	**2,646**

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 2017 (2016: nil) in respect of government securities. No collateral (2016: nil) was repledged to the Bank of England as collateral for BACS membership.

The reduction in funds placed with AIB plc at 31 December 2017 relates to AIB UK Group moving to manage its interest rate risk through derivatives rather than cash positions during 2017 (see note 43e).

18. Loans and receivables to customers

	AIB UK Group		AIB UK	
	2017	2016	2017	2016
	£m	£m	£m	£m
Loans and receivables to customers	6,461	6,516	6,463	6,514
Amounts receivable under finance leases and hire purchase contracts (note 21)	176	182	174	182
	6,637	**6,698**	**6,637**	**6,696**
Provisions for impairment (note 19)	(125)	(227)	(125)	(227)
Loans and receivables to customers	**6,512**	**6,471**	**6,512**	**6,469**
Amounts include:				
Due from AIB plc and fellow subsidiaries	**13**	**2**	**15**	**4**

At December 2016 certain mortgages, that were subject to a securitisation transaction in place from May 2012 with Tenterden Funding p.l.c., were included in loans and receivables to customers as the transaction did not meet the derecognition criteria of IAS 39 since AIB UK still retained the risk and rewards of ownership. The securitisation transaction was unwound in June 2017 when a call option to settle the related loan notes was exercised early (refer to note 15 for further information on the previous securitisation of residential mortgages).

During 2017, AIB UK sold two portfolios of loans to third parties. The first loan portfolio, which had a net book value of £1m was sold in May 2017 for a consideration of £5m. The sale agreement was signed on 26 May 2017, and the loans derecognised from the balance sheet of AIB UK Group at that date, see note 8.

In December 2017 a second portfolio of loans, with a net book value of £53m was sold for a consideration of £64m. The sale agreement was signed on 15 December 2017, and the loans derecognised from the balance sheet of AIB UK Group at that date. See note 8.

Further disclosures relevant to AIB UK Group's loans and receivables to customers are included in Credit risk disclosures, see note 20.

19. Provision for impairment of loans and receivables

The following table shows provisions for impairment on loans and receivables to customers.

	2017	2016
	Total	Total
AIB UK Group & AIB UK	£m	£m
Provision at 1 January	227	281
Exchange translation adjustments	-	1
Recoveries	1	-
Charge[1]	21	1
Disposals[2]	(73)	-
Amounts written off	(51)	(56)
Provision at 31 December	**125**	**227**

[1] Two significant unrelated credit provisions arose in 2017 and are included in the charge.
[2] Disposals relate to the sale of two portfolios of loans to third parties, note 8.

Total provisions are split between specific and IBNR as follows:

	2017	2016
	Total	Total
AIB UK Group & AIB UK	£m	£m
Specific	87	187
IBNR	38	40
Provision at 31 December	**125**	**227**

Loan impairment charge

	2017	2016
	Total	Total
AIB UK Group & AIB UK	£m	£m
Specific charge/(release)	22	(2)
IBNR release	(1)	(2)
Recoveries	(1)	-
Bad debts written off not already provided	1	5
Total loan impairment charge	**21**	**1**

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 quarterly basis to determine the overall provision requirement across all credit portfolios.

20. Credit risk disclosures

Credit risk management objectives are to:

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

(a) Maximum credit risk exposure

The maximum credit risk exposure of AIB UK Group at 31 December 2017, 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.

	2017	2016
Statement of Financial Position	**£m**	**£m**
Balances at central banks[1]	3,561	3,428
Items in course of collection	38	65
Derivative financial instruments	112	155
Loans and receivables to banks	965	2,661
Loans and receivables to customers	6,512	6,471
Financial investments available for sale	33	38
Prepayments and accrued income	4	6
Other assets	89	32
Maximum exposure to credit risk	**11,314**	**12,856**
Total off balance sheet items	**1,722**	**1,862**

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

(b) 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 6, 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 2017 the most significant concentration of exposures were to the property and construction sector, which made up 23% (2016: 24%) of loans and advances to customers, and in residential mortgages, 20% (2016: 23%) of loans and advances.

	2017			2016		
	Gross loans & receivables £m	%	Of which, impaired £m	Gross loans & receivables £m	%	Of which, impaired £m
Agriculture	72	1%	1	78	1%	1
Energy	285	4%	1	148	2%	-
Manufacturing	424	7%	4	377	6%	3
Property and construction	1,549	23%	48	1,580	24%	111
Distribution	1,116	17%	21	951	14%	36
Transport	268	4%	-	261	4%	-
Financial	112	2%	-	164	2%	5
Other services	1,285	19%	4	1,385	21%	25
Personal						
- Residential mortgages	1,349	20%	113	1,537	23%	167
- Other personal	177	3%	10	217	3%	27
	6,637	**100%**	**202**	**6,698**	**100%**	**375**

(c) Credit quality of loans and receivables

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 19.

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.

Good upper	Strong credit with no weakness evident.	
Good lower	Satisfactory credit with no weakness evident.	
Watch	The credit is exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cash flows.	**Collectively referred to as criticised**
Vulnerable	Credit where repayment is in jeopardy from normal cash flows and may be dependent on other sources.	
Impaired	A loan is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event(s) has an impact such that the present value of future cash flows is less than the current carrying value of the financial asset or group of assets and requires an impairment provision to be recognised in the income statement.	

The portfolio of gross loans and receivables by key sector and by quality (good, watch, vulnerable), is as follows:

Total gross loans and receivables	Mortgages	Other Personal	Property & Construction	Non Property Business	2017 Total
	£m	£m	£m	£m	£m
Neither past due nor impaired					
Good upper	65	-	23	13	**101**
Good lower	1,006	153	1,331	3,257	**5,747**
Watch	58	4	55	168	**285**
Vulnerable	80	5	58	58	**201**
Total neither past due nor impaired	**1,209**	**162**	**1,467**	**3,496**	**6,334**
Past due but not impaired					
Good lower	1	3	21	22	**47**
Watch	5	-	2	5	**12**
Vulnerable	21	2	11	8	**42**
Total past due but not impaired	**27**	**5**	**34**	**35**	**101**
Impaired	**113**	**10**	**48**	**31**	**202**
Total gross loans and receivables	**1,349**	**177**	**1,549**	**3,562**	**6,637**

Total gross loans and receivables	Mortgages	Other Personal	Property & Construction	Non Property Business	2016 Total
	£m	£m	£m	£m	£m
Neither past due nor impaired					
Good upper	70	-	-	3	**73**
Good lower	1,101	170	1,227	2,998	**5,496**
Watch	84	8	107	175	**374**
Vulnerable	87	7	89	90	**273**
Total neither past due nor impaired	**1,342**	**185**	**1,423**	**3,266**	**6,216**
Past due but not impaired					
Good lower	5	2	19	9	**35**
Watch	2	1	4	5	**12**
Vulnerable	21	2	23	14	**60**
Total past due but not impaired	**28**	**5**	**46**	**28**	**107**
Impaired	**167**	**27**	**111**	**70**	**375**
Total gross loans and receivables	**1,537**	**217**	**1,580**	**3,364**	**6,698**

Aged analysis of contractually past due but not impaired facilities

The table below sets out the aged analysis of loans and receivables to customers at 31 December 2017 and 31 December 2016.

	2017					2016				
	1-30 days	31-60 days	61-90 days	91+ days	Total	1-30 days	31-60 days	61-90 days	91+ days	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Agriculture	1	1	-	-	**2**	1	-	-	1	**2**
Manufacturing	6	-	-	1	**7**	1	1	-	-	**2**
Property and construction	16	7	1	10	**34**	26	6	10	4	**46**
Distribution	6	-	1	3	**10**	3	3	-	1	**7**
Financial	1	-	-	-	**1**	1	1	-	-	**2**
Other services	8	2	1	4	**15**	7	6	-	2	**15**
Personal										
- Residential mortgages	9	7	6	5	**27**	10	8	3	7	**28**
- Other personal	3	-	1	1	**5**	3	-	1	1	**5**
	50	**17**	**10**	**24**	**101**	**52**	**25**	**14**	**16**	**107**
As a percentage of total loans[1]	0.8%	0.3%	0.2%	0.4%	1.5%	0.8%	0.4%	0.2%	0.2%	1.6%

[1] Total loans relate to loans and receivables to customers before provisions.

(d) Collateral held

AIB UK Group takes 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.

The following table shows the current estimated fair value of collateral held for residential mortgages.

				2017				2016
Collateral held for residential mortgages	Neither past due nor impaired £m	Past due, but not impaired £m	Impaired £m	Total £m	Neither past due nor impaired £m	Past due, but not impaired £m	Impaired £m	Total £m
Fully collateralised								
Loan to value ratio:								
Less than 50%	467	13	19	499	499	11	20	530
50% - 70%	302	4	18	324	313	5	22	340
71% - 80%	131	3	9	143	148	3	13	164
81% - 90%	100	2	7	109	111	2	9	122
91% - 100%	74	3	12	89	79	3	12	94
	1,074	**25**	**65**	**1,164**	**1,150**	**24**	**76**	**1,250**
Partially collateralised								
Collateral value relating to loans over 100% loan to value	114	2	28	144	159	3	39	201
Gross residential mortgages collateral value	**1,188**	**27**	**93**	**1,308**	**1,309**	**27**	**115**	**1,451**
Statement of financial position								
- Specific provisions			(29)	(29)			(69)	(69)
- IBNR provisions			-	(4)			-	(7)
Net residential mortgages collateral value			**64**	**1,275**			**46**	**1,375**

(e) Repossessions

The number (stock) of repossessions of residential mortgages at 31 December 2017 and 31 December 2016 is set out below:

		2017		2016
	Number of repossessions	Balance outstanding £m	Number of repossessions	Balance outstanding £m
Owner occupier	13	3	37	8
Buy to let	14	1	11	1
Total	**27**	**4**	**48**	**9**

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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.

(f) 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.

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 2017 and 31 December 2016.

	2017		2016	
	Total loans in forbearance		Total loans in forbearance	
	Number	Balance	Number	Balance
Commercial forbearance		£m		£m
Interest only	9	3	25	18
Reduced payment	7	14	10	16
Arrears capitalisation	2	-	6	3
Term extension	30	7	45	39
Other	64	7	75	13
Total	**112**	**31**	**161**	**89**

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 analyse by type of forbearance, the owner occupier and buy-to-let mortgages that were subject to forbearance measures at 31 December 2017 and 31 December 2016.

				2017				2016
	Total loans in forbearance		Loans > 90 days in arrears and/or impaired		Total loans in forbearance		Loans > 90 days in arrears and/or impaired	
Forbearance Owner Occupier Mortgages	Number	Balance £m	Number	Balance £m	Number	Balance £m	Number	Balance £m
Interest only	100	9	52	5	54	4	29	3
Reduced payment	27	4	16	3	49	7	32	5
Payment moratorium	51	3	24	1	11	1	1	-
Arrears capitalisation	154	11	99	8	182	13	85	6
Term extension	129	9	72	6	232	18	58	6
Total	**461**	**36**	**263**	**23**	**528**	**43**	**205**	**20**

The incidence of the main types of forbearance arrangement for buy to let residential mortgages only are analysed below:

Forbearance Buy to Let Mortgages	2017 Total loans in forbearance Number	Balance £m	Loans > 90 days in arrears and/or impaired Number	Balance £m	2016 Total loans in forbearance Number	Balance £m	Loans > 90 days in arrears and/or impaired Number	Balance £m
Interest only	9	1	6	1	4	-	1	-
Reduced payment	3	-	-	-	6	1	2	-
Payment moratorium	2	-	1	-	-	-	-	-
Arrears capitalisation	11	1	10	1	12	1	5	1
Term extension	8	1	5	-	20	2	2	-
Total	**33**	**3**	**22**	**2**	**42**	**4**	**10**	**1**

(g) Credit profile of residential mortgages

Residential mortgages amounted to £1,349m at 31 December 2017 (2016: £1,537m).

The following tables set out various credit risk disclosures on residential mortgages. The tables cover:

- Residential mortgages – total
- Arrears profile of residential mortgages – past due but not impaired
- Analysis of loan-to-value of residential mortgage lending
- Loan origination profile of residential mortgages

Residential mortgages – total

The tables below give additional information on AIB UK Group's residential mortgages including the split between owner occupier and buy to let.

	2017 Owner occupier £m	Buy to let £m	Total £m	2016 Owner occupier £m	Buy to let £m	Total £m
Total residential mortgages	1,177	172	**1,349**	1,339	198	**1,537**
In arrears[1] (> 30 days past due)	86	14	**100**	155	29	**184**
In arrears[1] (> 90 days past due)	67	12	**79**	146	28	**174**
Of which are impaired	97	16	**113**	138	29	**167**
Statement of financial position specific provisions	23	6	**29**	53	16	**69**
Statement of financial position IBNR provisions	4	-	**4**	6	1	**7**
Income statement specific provisions	3	1	**4**	-	1	**1**
Income statement IBNR provisions	3	-	**3**	2	-	**2**
Specific provision/impaired loans cover	**24%**	**38%**	**26%**	**38%**	**55%**	**41%**

[1] Includes all impaired loans whether past due or not

Arrears profile of residential mortgages – past due but not impaired

The following tables provide an arrears profile for the AIB UK Group residential mortgages that were past due but not impaired at 31 December 2017 and 31 December 2016:

			2017			2016
	Owner occupier	Buy to let	Total	Owner occupier	Buy to let	Total
	£m	£m	£m	£m	£m	£m
1 – 30 days	8	1	**9**	8	2	**10**
31 – 60 days	7	-	**7**	7	1	**8**
61 – 90 days	6	-	**6**	3	-	**3**
91 – 180 days	5	-	**5**	2	-	**2**
181 – 365 days	-	-	**-**	2	-	**2**
Over 365 days	-	-	**-**	3	-	**3**
Total past due but not impaired	**26**	**1**	**27**	**25**	**3**	**28**

Analysis of loan-to-value of residential mortgage lending

						2017
	Owner occupier		Buy to let		Total	
Neither past due nor impaired	£m	%	£m	%	£m	%
Less than 50%	417	39.5%	50	32.5%	**467**	**38.6%**
50%-70%	272	25.8%	30	19.5%	**302**	**25.0%**
71%-80%	110	10.4%	21	13.6%	**131**	**10.8%**
81%-90%	88	8.3%	12	7.8%	**100**	**8.3%**
91%-100%	59	5.6%	14	9.1%	**73**	**6.0%**
101%-120%	67	6.4%	21	13.6%	**88**	**7.3%**
121%-150%	32	3.0%	5	3.2%	**37**	**3.1%**
Greater than 150%	10	1.0%	1	0.7%	**11**	**0.9%**
Total	**1,055**	**100.0%**	**154**	**100.0%**	**1,209**	**100.0%**

						2016
	Owner occupier		Buy to let		Total	
Neither past due nor impaired	£m	%	£m	%	£m	%
Less than 50%	448	38.2%	51	30.8%	**499**	**37.2%**
50%-70%	284	24.1%	29	17.5%	**313**	**23.3%**
71%-80%	131	11.1%	17	10.2%	**148**	**11.0%**
81%-90%	93	7.9%	18	10.8%	**111**	**8.3%**
91%-100%	63	5.4%	16	9.6%	**79**	**5.9%**
101%-120%	87	7.4%	23	13.9%	**110**	**8.2%**
121%-150%	59	5.0%	11	6.6%	**70**	**5.2%**
Greater than 150%	11	0.9%	1	0.6%	**12**	**0.9%**
Total	**1,176**	**100.0%**	**166**	**100.0%**	**1,342**	**100.0%**

	2017					
	Owner occupier		Buy to let		Total	
Past due and/or impaired	£m	%	£m	%	£m	%
Less than 50%	30	24.6%	2	11.1%	**32**	**22.9%**
50%-70%	20	16.4%	2	11.1%	**22**	**15.7%**
71%-80%	12	9.8%	1	5.6%	**13**	**9.3%**
81%-90%	7	5.8%	2	11.1%	**9**	**6.4%**
91%-100%	14	11.5%	1	5.6%	**15**	**10.7%**
101%-120%	11	9.0%	2	11.1%	**13**	**9.3%**
121%-150%	10	8.2%	2	11.1%	**12**	**8.6%**
Greater than 150%	12	9.8%	5	27.7%	**17**	**12.1%**
Repossessed (unsecured)	6	4.9%	1	5.6%	**7**	**5.0%**
Total	**122**	**100.0%**	**18**	**100.0%**	**140**	**100.0%**

	2016					
	Owner occupier		Buy to let		Total	
Past due and/or impaired	£m	%	£m	%	£m	%
Less than 50%	28	17.2%	3	9.7%	**31**	**15.9%**
50%-70%	25	15.2%	2	6.4%	**27**	**13.8%**
71%-80%	15	9.1%	1	3.2%	**16**	**8.2%**
81%-90%	9	5.5%	2	6.4%	**11**	**5.6%**
91%-100%	13	7.9%	2	6.4%	**15**	**7.7%**
101%-120%	13	7.9%	2	6.4%	**15**	**7.7%**
121%-150%	17	10.4%	3	9.7%	**20**	**10.3%**
Greater than 150%	23	14.0%	6	19.4%	**29**	**14.9%**
Repossessed (unsecured)	21	12.8%	10	32.4%	**31**	**15.9%**
Total	**164**	**100.0%**	**31**	**100.0%**	**195**	**100.0%**

Loan origination profile of residential mortgages

The following table profiles the residential mortgage book and impaired residential mortgage book at 31 December 2017 and 31 December 2016 by year of origination:

	2017				2016			
	Residential mortgage loan book		Impaired residential mortgage loan book		Residential mortgage loan book		Impaired residential mortgage loan book	
	Number	Balance £m	Number	Balance £m	Number	Balance £m	Number	Balance £m
1996 and before	925	17	32	1	1,208	24	34	2
1997	298	5	4	-	360	6	2	-
1998	311	6	11	-	345	8	13	-
1999	561	15	38	1	665	18	45	1
2000	639	15	24	1	703	19	27	1
2001	663	19	55	2	720	23	65	3
2002	1,038	39	58	2	1,204	45	70	3
2003	1,495	64	102	4	1,655	79	121	5
2004	1,687	84	136	8	1,881	104	160	8
2005	2,307	148	206	13	2,559	170	267	19
2006	3,123	257	230	22	3,437	295	344	32
2007	2,638	307	227	36	3,053	374	413	65
2008	1,085	121	82	16	1,202	144	108	20
2009	474	36	17	3	547	45	26	4
2010	238	20	13	4	273	24	14	4
2011	116	8	-	-	136	10	4	-
2012	126	10	1	-	146	13	1	-
2013	244	21	1	-	283	25	1	-
2014	342	41	-	-	383	49	-	-
2015	223	31	-	-	234	33	1	-
2016	198	26	-	-	207	29	-	-
2017	434	59	-	-	-	-	-	-
Total	**19,165**	**1,349**	**1,237**	**113**	**21,201**	**1,537**	**1,716**	**167**

Note: New accounts opened within restructures and top ups of mortgages are reflected in the initial year of origination of the original loan, rather than in the year of restructure/top up.

21. Amounts receivable under finance leases and hire purchase contracts

The following table shows the movement in assets measured at fair value based on valuation techniques using non-observable market data.

These balances principally comprise of leasing arrangements involving vehicles, plant, machinery and equipment.

	AIB UK Group		AIB UK	
	2017	2016	2017	2016
	£m	£m	£m	£m
Gross receivables				
Not later than 1 year	65	65	65	64
Later than 1 year and not later than 5 years	114	121	113	120
Later than 5 years	2	2	2	2
Total gross receivables	**181**	**188**	**180**	**186**
Unearned future finance income	(5)	(6)	(5)	(6)
Total	**176**	**182**	**175**	**180**
Present value of minimum payments by residual maturity				
Not later than 1 year	64	64	64	63
Later than 1 year and not later than 5 years	110	116	109	115
Later than 5 years	2	2	2	2
Present value of minimum payments	**176**	**182**	**175**	**180**
Provision for uncollectible minimum payments receivable[1]	**2**	**2**	**2**	**2**

[1] Included in the provision for impairment of loans and receivables to customers (note 19).

22. Financial investments available for sale

AIB UK Group & AIB UK	2017 £m	2016 £m
Equity shares		
Equity shares: unlisted	33	38
Financial investments available for sale	**33**	**38**

Included in financial investments available for sale at 31 December 2016 was £6m relating to shares in Vocalink, held at fair value. These shares were disposed of in 2017. See note 37 for more details.

Financial investments available for sale (equity securities)

AIB UK Group & AIB UK	2017 £m	2016 £m
At 1 January	38	54
Exchange translation adjustments	-	5
Disposal of financial investments available for sale	(6)	(21)
Movement in unrealised gains	1	-
At 31 December	**33**	**38**

23. Other assets

	AIB UK Group		AIB UK	
	2017 £m	2016 £m	2017 £m	2016 £m
Items in transit	29	17	29	18
Sale of loans awaiting settlement[1]	48	-	48	-
Non-current assets held for sale[2]	2	-	2	-
Other debtors	10	15	10	14
Other assets	**89**	**32**	**89**	**32**

[1] In December 2017, AIB UK Group sold a portfolio of loans to a third party for a consideration of £64m. The loan portfolio had a net book value of £53m, and after taking into consideration selling, post signing movement and other costs, a profit on disposal of £2m was recorded on the transaction. The sale agreement was signed on 15 December 2017, and the loans derecognised from the balance sheet of AIB UK Group at that date. A deposit of ten per cent of the agreed purchase price was paid on signing, and the remaining amount was paid in February 2018. The amount due to be received from the purchaser was £48m at 31 December 2017 which was held net of any cash received from customers that was due to be paid to the third party.

[2] Included in Other Assets are Non-current assets held for sale of £2m at 31 December 2017. The balance comprises of 7 vacant properties in Northern Ireland that are surplus to business requirements.

24. Investments in group undertakings

AIB UK	2017 £m	2016 £m
At 1 January	0.3	0.8
Impairment of investment in subsidiary	-	(0.5)
Shares in group undertakings	**0.3**	**0.3**

All of the companies listed below are registered in Northern Ireland, with the exception of AIB Joint Ventures Ltd, which is registered in England and Wales. AIB UK holds 100% of the ordinary shares of the companies listed.

As at 31 December 2017, AIB UK Group held no investments in associated undertakings (2016: nil), accounted for in accordance with IAS 28, Investments in Associates.

First Trust Financial Services Limited ceased carrying out new business in 2012 and sold its back book to Wren Sterling Financial Planning Limited in 2016. First Trust Financial Planning Limited terminated an Appointed Representative arrangement and ceased carrying out any new business in 2015 and its back book was also sold to Wren Sterling Financial Planning Limited in 2016. Following an impairment review of the investment in First Trust Financial Planning Limited, the Company impaired £0.5m of this investment in December 2016. There was no impairment of the investment in subsidiaries in 2017.

The principal activities of the Company and its subsidiaries (the Group) and the nature of the Group's operations are set out in the Strategic report on page 2.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environments in which the Group operates.

The subsidiary undertakings are:

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
First Trust Leasing No.5 (Northern Ireland) Limited[1]	31 January	Dormant
First Trust Leasing No.1 (Northern Ireland) Limited[1]	31 March	Dormant
First Trust Leasing No.2 (Northern Ireland) Limited[1]	30 June	Dormant
First Trust Leasing No.3 (Northern Ireland) Limited[1]	30 September	Dormant
First Trust Investment Managers Limited	31 December	Dormant
First Trust Commercial Services Limited	31 December	Dormant

[1] 100% subsidiary of First Trust Leasing No.4 (Northern Ireland) Limited.

For the year ending 31 December 2017 the subsidiaries of the Company, listed in the table below, were entitled to exemption from audit under s479A of the Companies Act 2006 relating to subsidiary companies.

The dormant subsidiaries of the Company, listed in the table below have taken advantage under s394A of the Companies Act 2006 exemption from preparing individual accounts. These subsidiaries are exempt from the requirement to prepare individual accounts by virtue of this section.

The dormant subsidiaries of the Company, listed in the table below have taken advantage under s448A of the Companies Act 2006 exemption from filing individual accounts. The Directors of the dormant subsidiaries are exempt from the requirement to deliver a copy of the subsidiaries' individual accounts by virtue of this section. The six dormant companies listed above are in the process of being voluntarily struck off as at 31 December 2017.

Subsidiary Name	Companies House Registration Number
First Trust Leasing No.5 (Northern Ireland) Limited	NI030024
First Trust Leasing No.1 (Northern Ireland) Limited	NI029678
First Trust Leasing No.2 (Northern Ireland) Limited	NI029686
First Trust Leasing No.3 (Northern Ireland) Limited	NI029708
First Trust Investment Managers Limited	NI026462
First Trust Commercial Services Limited	NI026401

Tenterden Funding p.l.c.

In May 2012, AIB UK securitised and sold certain residential mortgages to Tenterden Funding p.l.c. ('Tenterden'), a special purpose entity. To fund the purchase of beneficial interest in the residential mortgages, Tenterden issued class A notes to external investors and class B notes to AIB UK. The transaction did not meet the derecognition criteria under IAS 39, as AIB UK still retained the risks and rewards of ownership, and the mortgages continued to be reported in the accounts of AIB UK. Tenterden was consolidated into AIB UK Group's accounts with the class B notes being eliminated on consolidation.

As the structure was no longer required to support the funding activities of AIB UK Group, a call option to mature the class A notes was exercised in June 2017. Both the class A notes and class B notes were settled in June 2017 and the securitisation structure unwound.

25. Property, plant and equipment

	Property			Assets under Construction	Equipment	2017 Total
	Freehold	Long Leasehold	Leasehold under 50 years			
AIB UK Group	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2017	20	7	12	2	25	66
Reclassification to non-current assets held for sale	(3)	(1)	-	-	-	(4)
Additions	-	-	1	2	1	4
Transfers	-	-	1	(2)	1	-
At 31 December 2017	**17**	**6**	**14**	**2**	**27**	**66**
Depreciation/impairment						
At 1 January 2017	15	5	9	-	22	51
Depreciation charge for the year	-	-	1	-	1	2
Reclassification to non-current assets held for sale	(2)	-	-	-	-	(2)
At 31 December 2017	**13**	**5**	**10**	**-**	**23**	**51**
Carrying value at 31 December 2017	**4**	**1**	**4**	**2**	**4**	**15**

The net book value of property occupied by AIB UK Group for its own activities at 31 December 2017 was £9m (2016: £10m).

A number of branch properties, that were surplus to requirements, were sold during 2017 generating a profit on disposal of property of £1m (2016: nil).

AIB UK Group	Property			Assets under Construction	Equipment	2016 Total
	Freehold	Long Leasehold	Leasehold under 50 years			
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2016	20	7	11	2	24	64
Additions	-	-	1	-	1	2
At 31 December 2016	**20**	**7**	**12**	**2**	**25**	**66**
Depreciation/impairment						
At 1 January 2016	15	5	9	-	21	50
Depreciation charge for the year	-	-	-	-	1	1
At 31 December 2016	**15**	**5**	**9**	**-**	**22**	**51**
Carrying value at 31 December 2016	**5**	**2**	**3**	**2**	**3**	**15**

AIB UK	Property			Assets under Construction	Equipment	2017 Total
	Freehold	Long Leasehold	Leasehold under 50 years			
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2017	11	6	11	2	25	55
Reclassification to non-current assets held for sale	(3)	(1)	-	-	-	(4)
Additions	-	-	1	2	-	3
Transfers	-	-	1	(2)	1	-
At 31 December 2017	**8**	**5**	**13**	**2**	**26**	**54**
Depreciation/impairment						
At 1 January 2017	7	4	8	-	23	42
Depreciation charge for the year	-	-	1	-	1	2
Reclassification to non-current assets held for sale	(2)	-	-	-	-	(2)
At 31 December 2017	**5**	**4**	**9**	**-**	**24**	**42**
Carrying value at 31 December 2017	**3**	**1**	**4**	**2**	**2**	**12**

AIB UK	Property Freehold £m	Long Leasehold £m	Leasehold under 50 years £m	Assets under Construction £m	Equipment £m	2016 Total £m
Cost						
At 1 January 2016	11	6	10	2	24	53
Additions	-	-	1	-	1	2
At 31 December 2016	**11**	**6**	**11**	**2**	**25**	**55**
Depreciation/impairment						
At 1 January 2016	7	4	8	-	22	41
Depreciation charge for the year	-	-	-	-	1	1
At 31 December 2016	**7**	**4**	**8**	**-**	**23**	**42**
Carrying value at 31 December 2016	**4**	**2**	**3**	**2**	**2**	**13**

26. Intangible assets

AIB UK Group & AIB UK	Software Externally Purchased £m	Software Internally Generated £m	Software Under Construction £m	2017 Total £m
Cost				
At 1 January 2017	1	3	9	13
Additions	-	2	13	15
Transfers in/(out)	-	5	(5)	-
At 31 December 2017	**1**	**10**	**17**	**28**
Amortisation/impairment				
At 1 January 2017	1	1	-	2
Amortisation for the year	-	1	-	1
At 31 December 2017	**1**	**2**	**-**	**3**
Carrying value at 31 December 2017	**-**	**8**	**17**	**25**

Additions and transfers in to software internally generated in 2017 relate to the AIB UK Image Clearing system, CMA and other regulatory projects which were completed in 2017. Software under construction additions, net of transfers out, relate to the AIB UK IRB modelling and OneUK software.

AIB UK Group & AIB UK	Software Externally Purchased £m	Software Internally Generated £m	Software Under Construction £m	2016 Total £m
Cost				
At 1 January 2016	1	3	1	5
Additions	-	-	8	8
At 31 December 2016	**1**	**3**	**9**	**13**
Amortisation/impairment				
At 1 January 2016	1	1	-	2
At 31 December 2016	**1**	**1**	**-**	**2**
Carrying value at 31 December 2016	**-**	**2**	**9**	**11**

27. Deferred taxation

AIB UK Group & AIB UK	2017 £m	2016 £m
Deferred tax assets		
Unutilised tax losses	111	95
Other	2	2
Total deferred tax assets	**113**	**97**
Deferred tax liabilities		
Retirement benefits	(105)	(111)
Available for sale securities	(1)	(1)
Cash flow hedges	(2)	(7)
Total deferred tax liability	**(108)**	**(119)**
Net deferred tax asset/(liability)	**5**	**(22)**

Represented on the Statement of Financial Position as follows:

AIB UK Group & AIB UK	2017 £m	2016 £m
Deferred taxation asset	40	17
Deferred taxation liability	(35)	(39)

The movements in deferred tax during the period are shown below:

AIB UK Group & AIB UK	2017 £m	2016 £m
Deferred taxation at 1 January	(22)	53
Deferred tax through other comprehensive income (note 34)	16	1
Income statement (note 13)	11	(76)
Deferred taxation at 31 December	**5**	**(22)**

AIB UK Group's accounting policy for deferred tax is set out in note 2.11.

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 25% (2016: 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 19% with effect from 1 April 2017 and 17% from 1 April 2020 were substantively enacted on 16 March 2016. The deferred tax asset at 31 December 2017 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 because of 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 2018 to 2020, which was presented to the Board in December 2017;
- continued financial support from the Parent, and a commitment from the Parent for substantial technology and process investment in AIB UK Group;
- 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;
- 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.

Having taken into account all these factors, the Directors 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 the AIB UK Group's long-term financial and strategic plans. As a result, an amount of £393m (2016: £413m) 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 projections of future income and is subject to significant management judgement. 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 deferred tax asset due after more than one year is £106m (2016: £91m).

28. Deposits by banks

	AIB UK Group		AIB UK	
	2017	2016	2017	2016
	£m	£m	£m	£m
Other borrowings from banks	**473**	**2,255**	**464**	**2,246**
Amounts include:				
Due to AIB plc and fellow subsidiaries	469	2,251	460	2,242

At 31 December 2017 and 31 December 2016, there were no securities sold under agreements to repurchase.

The reduction in borrowings from AIB plc at 31 December 2017 relates to AIB UK Group moving to manage its interest rate risk through derivatives rather than cash positions during 2017 (see note 43e).

29. Customer accounts

	AIB UK Group		AIB UK	
	2017	2016	2017	2016
	£m	£m	£m	£m
Current accounts	5,707	5,239	5,707	5,240
Demand deposits	1,595	1,643	1,595	1,643
Time deposits	1,732	1,844	1,761	1,912
Customer accounts	**9,034**	**8,726**	**9,063**	**8,795**
Amounts include:				
Due to AIB plc and fellow subsidiaries	57	44	86	113

30. Debt securities in issue

	AIB UK Group		AIB UK	
	2017	2016	2017	2016
	£m	£m	£m	£m
Class A notes	-	59	-	-
Debt securities in issue	**-**	**59**	**-**	**-**

Class A notes of £59m, issued to external investors on 16 May 2012 as part of the securitisation of residential mortgages transaction with Tenterden Funding p.l.c., (note 24) were repaid on 21 June 2017 when a call option to mature the notes was exercised. The notes had a final maturity date of 21 March 2044 and the coupon rate was three month London Interbank Offered Rate (LIBOR) plus 1.5%.

31. Other liabilities

	AIB UK Group		AIB UK	
	2017	2016	2017	2016
	£m	£m	£m	£m
Notes in circulation	295	313	295	313
Items in transit	29	45	29	45
VAT payable	1	1	1	1
Other creditors	40	32	39	32
Other liabilities	**365**	**391**	**364**	**391**

32. Provision for liabilities and commitments

AIB UK Group	Customer redress £m	Empty properties £m	Litigation £m	Other £m	Total £m
	(a)	(b)	(c)	(d)	
At 1 January 2017	19	8	4	2	**33**
Amounts released to income statement	(1)	-	(2)	(1)	**(4)**
Reclassification	(5)	-	5	-	**-**
Provisions utilised	(4)	(3)	(1)	-	**(8)**
At 31 December 2017	**9**	**5**	**6**	**1**	**21**
At 1 January 2016	27	8	4	3	**42**
Amounts (released)/charged to income statement	(4)	3	-	(1)	**(2)**
Provisions utilised	(4)	(3)	-	-	**(7)**
At 31 December 2016	**19**	**8**	**4**	**2**	**33**

AIB UK	Customer redress £m	Empty properties £m	Litigation £m	Other £m	Total £m
	(a)	(b)	(c)	(d)	
At 1 January 2017	9	8	4	2	**23**
Amounts released to income statement	-	-	(1)	(1)	**(2)**
Provisions utilised	(3)	(3)	-	-	**(6)**
At 31 December 2017	**6**	**5**	**3**	**1**	**15**
At 1 January 2016	18	8	4	3	**33**
Amounts (released)/charged to income statement	(5)	3	-	(1)	**(3)**
Provisions utilised	(4)	(3)	-	-	**(7)**
At 31 December 2016	**9**	**8**	**4**	**2**	**23**

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 is a provision at 31 December 2017 of £1m (2016: £2m) in relation to potential interest rate hedging mis-selling, a provision of £4m (2016: £5m) for the cost of PPI redress and, after a reclassification in 2017 of £5m to litigation, a provision of £4m (2016: £12m) in respect of mis-selling investments products and other customer redress issues.

Interest Rate Hedging Products Provision (IRHP)
During 2014 and 2015 £71m was paid out in respect of redress to customers arising from the IRHP review instigated by FCA in 2012. A further £2m was paid out in 2016 and £7m of the provision was released in 2016, with a further release of £1m in 2017, mainly relating to provision held for potential consequential loss claims and legal claims. A provision of £1m (2016: £2m) was held at 31 December 2017.

PPI Provision
AIB UK Group holds a provision for PPI redress claims and associated costs. An additional provision of £2m was raised in 2016 to cover expected claims arising out of the introduction of time barring and the result of a Court ruling meaning that some PPI claims previously closed could now be eligible for redress. After payouts in 2017 of £1m (2016: £1m) the provision held as at 31 December 2017 is £4m (2016: £5m).

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 2017. During 2017 £5m of the customer redress provision at 31 December 2016 was reclassified as litigation provision to better reflect the nature of the provision. £3m (2016: £1m) has been paid out during the year in respect of mis-selling claims and legal costs leaving a provision of £4m at 31 December 2017 (2016: £12m).

(b) The provision for empty property at 31 Dec 2017 of £5m (2016: £8m) relates to a number of premises that were deemed surplus to requirements and a provision was required for the costs associated with these premises. The provision had increased by a net £3m in 2016 following a further assessment of AIB UK Group's building requirements. During 2017 £3m of the provision was utilised which included a negotiated settlement of £1m for one GB property.

(c) AIB UK Group has made provision for the cost of a number of legal claims that were outstanding at 31 December 2017 including the reclassification of £5m from the customer redress provision to litigation during 2017. Management believe the amount provided 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.

(d) Other provisions at 31 December 2017 comprise of an amount of £1m (2016: £2m) in respect of the FSCS levy for scheme year 2018/2019. In 2016 £1m, held at 31 December 2015 for the potential settlement of staff benefits-in-kind was released through other provisions. 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 2016 and 2017, see note 9.

33. Share capital

AIB UK Group & AIB UK	2017 £m	2016 £m
Authorised, issued and fully paid ordinary shares of £1 each	2,384	2,384

No ordinary shares were issued in 2017 or 2016.

34. Analysis of movements in reserves in other comprehensive income

			2017			2016
	Gross	Tax	Net	Gross	Tax	Net
AIB UK Group	£m	£m	£m	£m	£m	£m
Cash flow hedge reserve						
Amount removed from equity and transferred to income statement	(11)	3	**(8)**	(10)	3	**(7)**
Change in fair value recognised in equity	(8)	2	**(6)**	43	(11)	**32**
Total	**(19)**	**5**	**(14)**	**33**	**(8)**	**25**
Available for sale financial assets						
Amount removed from equity and transferred to income statement	(6)	1	**(5)**	(21)	4	**(17)**
Change in fair value recognised in equity	1	-	**1**	6	2	**8**
Total	**(5)**	**1**	**(4)**	**(15)**	**6**	**(9)**
Retained earnings						
Actuarial (loss)/gain in retirement benefit schemes (note 11)	(37)	10	**(27)**	4	3	**7**
Total	**(37)**	**10**	**(27)**	**4**	**3**	**7**
Other comprehensive income	**(61)**	**16**	**(45)**	**22**	**1**	**23**

			2017			2016
	Gross	Tax	Net	Gross	Tax	Net
AIB UK	£m	£m	£m	£m	£m	£m
Cash flow hedge reserve						
Amount removed from equity and transferred to income statement	(11)	3	**(8)**	(10)	3	**(7)**
Change in fair value recognised in equity	(8)	2	**(6)**	43	(11)	**32**
Total	**(19)**	**5**	**(14)**	**33**	**(8)**	**25**
Available for sale financial assets						
Amount removed from equity and transferred to income statement	(6)	1	**(5)**	(21)	4	**(17)**
Change in fair value recognised in equity	**1**	**-**	**1**	5	2	**7**
Total	**(5)**	**1**	**(4)**	**(16)**	**6**	**(10)**
Retained earnings						
Actuarial (loss)/gain in retirement benefit schemes (note 11)	(37)	10	**(27)**	4	3	**7**
Total	**(37)**	**10**	**(27)**	**4**	**3**	**7**
Other comprehensive income	**(61)**	**16**	**(45)**	**21**	**1**	**22**

35. Contingent liabilities and commitments

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

AIB UK Group uses the same credit control and risk management policies in undertaking all off-balance sheet commitments as it does for on balance sheet lending including counterparty credit approval, limit setting and monitoring procedures. AIB UK Group's maximum exposure to credit loss under contingent liabilities and commitments, in the event of default by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments as shown in the table below.

AIB UK Group & AIB UK	2017 Contract amount £m	2016 Contract amount £m
Contingent liabilities		
Guarantees and irrevocable letters of credit	182	295
Other contingent liabilities	147	60
	329	**355**
Commitments		
Documentary credits and short-term trade related transactions	16	6
Undrawn credit facilities		
- One year and over	714	724
- Less than one year	663	777
	1,393	**1,507**
Contingent liabilities and commitments	**1,722**	**1,862**

36. 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 2.12 and financial liabilities in note 2.13 describe how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

The following tables analyse the carrying amounts of the financial assets and financial liabilities by category as defined in IAS 39 Financial Instruments: Recognition and Measurement and by statement of financial position heading at 31 December 2017 and 2016.

						2017
	Carrying amount in statement of financial position					
	At FV through P&L	At FV through equity		At amortised cost		Total
	Held for trading	Cash flow hedge derivatives	Available for sale securities	Loans and receivables	Other	
AIB UK Group	£m	£m	£m	£m	£m	£m
Financial assets						
Cash and balances at central banks	-	-	-	3,583	-	**3,583**
Items in the course of collection	-	-	-	38	-	**38**
Derivative financial instruments	94	18	-	-	-	**112**
Loans and receivables to banks	-	-	-	965	-	**965**
Loans and receivables to customers	-	-	-	6,512	-	**6,512**
Financial investments available for sale						
- Equity shares	-	-	33	-	-	**33**
Other assets	-	-	-	-	89	**89**
Retirement benefit assets	-	-	-	-	265	**265**
Total assets	**94**	**18**	**33**	**11,098**	**354**	**11,597**
Financial liabilities						
Derivative financial instruments	108	8	-	-	-	**116**
Deposits by banks	-	-	-	-	473	**473**
Customer accounts	-	-	-	-	9,034	**9,034**
Debt securities in issue	-	-	-	-	-	-
Other liabilities	-	-	-	-	365	**365**
Total liabilities	**108**	**8**	**-**	**-**	**9,872**	**9,988**

						2016
	Carrying amount in statement of financial position					
	At FV through P&L	At FV through equity		At amortised cost		Total
	Held for trading	Cash flow hedge derivatives	Available for sale securities	Loans and receivables	Other	
AIB UK Group	£m	£m	£m	£m	£m	£m
Financial assets						
Cash and balances at central banks	-	-	-	3,458	-	**3,458**
Items in the course of collection	-	-	-	65	-	**65**
Derivative financial instruments	119	36	-	-	-	**155**
Loans and receivables to banks	-	-	-	2,661	-	**2,661**
Loans and receivables to customers	-	-	-	6,471	-	**6,471**
Financial investments available for sale						
- Equity shares	-	-	38	-	-	**38**
Other assets	-	-	-	-	32	**32**
Retirement benefit assets	-	-	-	-	308	**308**
Total assets	**119**	**36**	**38**	**12,655**	**340**	**13,188**
Financial liabilities						
Derivative financial instruments	136	5	-	-	-	**141**
Deposits by banks	-	-	-	-	2,255	**2,255**
Customer accounts	-	-	-	-	8,726	**8,726**
Debt securities in issue	-	-	-	-	59	**59**
Other liabilities	-	-	-	-	391	**391**
Total liabilities	**136**	**5**	**-**	**-**	**11,431**	**11,572**

37. 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 2.15.

Readers of these financial statements are advised to use caution when using the data in the following tables to evaluate the AIB UK Group's financial position or to make comparisons with other institutions. Fair value information is not provided for items that do not meet the definition of a financial instrument. These items include intangible assets such as the value of the branch network and the long-term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the AIB UK Group as a going concern at 31 December 2017.

The valuation of financial instruments, including loans and receivables, involves the application of judgement and estimation. Market and credit risks are key assumptions in the estimation of the fair value of loans and receivables. 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 and financial instruments in fair value hedge relationships are subsequently measured at fair value through profit or loss. Available for sale securities and 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 methods used for calculation of fair value in the year to 31 December 2017 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 probability of default ('PD') x loss given default ('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 AIB UK Defined Benefit pension scheme entered into a longevity swap on 22 December 2016. The fair value of this swap at 31 December 2016 was maintained at the transaction date valuation of nil, as there was no evidence of a change to life expectancy or death experience between the time of entering into the swap and 31 December 2016. The fair value at 31 December 2017 of £4m liability is included within the value of the retirement benefit scheme assets.

Financial investments available for sale
The fair value of available for sale debt securities and equities has been estimated based on expected sale proceeds. The expected sale proceeds are based on screen bid prices which have been analysed and compared across multiple sources for reliability. Where screen prices are unavailable, fair values are estimated by valuation techniques using observable market data for similar instruments.

Where there is no market data for a directly comparable instrument, management judgement, on an appropriate credit spread to similar or related instruments with market data available, is used within the valuation technique. This is supported by cross referencing other similar or related instruments.

In 2017 AIB UK's equity investment in Vocalink was disposed of and the unrealised fair value gain of £6m was realised upon disposal and recognised in the Income Statement.

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

Loans and receivables to banks
The fair value of loans and receivables 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 receivables 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 receivables 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. An adjustment is made for credit risk which at 31 December 2017 took account of AIB UK Group's 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.

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

Other financial assets and other financial liabilities
This caption includes accrued interest receivable and payable and 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 35. Fees for these instruments may be billed in advance or in arrears on an annual, quarterly or monthly basis. In addition, the fees charged vary on the basis of instrument type and associated credit risk. As a result, it is not considered practicable to estimate the fair value of these instruments because each customer relationship would have to be separately evaluated.

The table below sets out the carrying amount and fair value of financial instruments across the three levels of the fair value hierarchy at 31 December 2017 and 2016:

					2017
		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	112	-	25	87	**112**
Financial investments available for sale					
- Equity shares	33	-	-	33	**33**
Financial assets not measured at fair value					
Cash and balances at central banks	3,583	22	3,561	-	**3,583**
Items in the course of collection	38	-	-	38	**38**
Loans and receivables to banks	965	-	476	489	**965**
Loans and receivables to customers	6,512	-	-	6,394	**6,394**
Other assets	89	-	-	89	**89**
Retirement benefit assets	265	-	-	265	**265**
Total assets	**11,597**	**22**	**4,062**	**7,395**	**11,479**
Financial liabilities measured at fair value					
Derivative financial instruments	116	-	116	-	**116**
Financial liabilities not measured at fair value					
Deposits by banks	473	-	-	494	**494**
Customer accounts	9,034	-	-	9,037	**9,037**
Debt securities in issue	-	-	-	-	**-**
Other liabilities	365	-	-	365	**365**
Total liabilities	**9,988**	**-**	**116**	**9,896**	**10,012**

					2016
					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	155	-	40	115	**155**
Financial investments available for sale					
- Equity shares	38	-	-	38	**38**
Financial assets not measured at fair value					
Cash and balances at central banks	3,458	30	3,428	-	**3,458**
Items in the course of collection	65	-	-	65	**65**
Loans and receivables to banks	2,661	-	-	2,661	**2,661**
Loans and receivables to customers	6,471	-	-	6,342	**6,342**
Other assets	32	-	-	32	**32**
Retirement benefit assets	308	-	-	308	**308**
Total assets	**13,188**	**30**	**3,468**	**9,561**	**13,059**
Financial liabilities measured at fair value					
Derivative financial instruments	141	-	141	-	**141**
Financial liabilities not measured at fair value					
Deposits by banks	2,255	-	-	2,281	**2,281**
Customer accounts	8,726	-	-	8,737	**8,737**
Debt securities in issue	59	-	59	-	**59**
Other liabilities	391	-	-	391	**391**
Total liabilities	**11,572**	**-**	**200**	**11,409**	**11,609**

Reconciliation of balances in Level 3 of fair value hierarchy:

			2017
			Financial assets
	Derivatives	Equity securities	Total
AIB UK Group	**£m**	**£m**	**£m**
At beginning of year	115	38	153
Total gains or losses in:			
- Profit or loss	(28)	6	(22)
- Other comprehensive income	-	(4)	(4)
Disposals	-	(7)	(7)
At 31 December 2017	**87**	**33**	**120**

			2016
			Financial assets
	Derivatives	Equity securities	Total
AIB UK Group	**£m**	**£m**	**£m**
At beginning of year	84	54	138
Total gains or losses in:			
- Profit or loss	31	21	52
- Other comprehensive income	-	(16)	(16)
Disposals	-	(21)	(21)
At 31 December 2016	**115**	**38**	**153**

38. 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 tables on the following pages 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 receivables 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

	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	2017 Total £m
Assets										
Loans and receivables to banks	721	-	-	-	-	-	-	-	244	**965**
Loans and receivables to customers	4,297	1,743	247	107	88	50	64	69	(153)	**6,512**
Financial investments available for sale	-	-	-	-	-	-	-	-	33	**33**
Other assets	3,560	-	-	-	-	-	-	-	765	**4,325**
Total assets	**8,578**	**1,743**	**247**	**107**	**88**	**50**	**64**	**69**	**889**	**11,835**
Liabilities										
Deposits by banks	297	33	16	19	22	9	11	66	-	**473**
Customer accounts	5,229	366	656	172	4	-	-	-	2,607	**9,034**
Other liabilities	-	-	-	-	-	-	-	-	568	**568**
Shareholders' equity	-	-	-	-	-	-	-	-	1,760	**1,760**
Total liabilities and shareholders' equity	**5,526**	**399**	**672**	**191**	**26**	**9**	**11**	**66**	**4,935**	**11,835**
Derivative financial instruments affecting interest rate sensitivity	665	1,130	(593)	(258)	(113)	(113)	(109)	(609)	-	-
Interest sensitivity gap	**2,387**	**214**	**168**	**174**	**175**	**154**	**162**	**612**	**(4,046)**	**-**
Cumulative interest sensitivity gap	2,387	2,601	2,769	2,943	3,118	3,272	3,434	4,046	-	-

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	2016 Total £m
Assets										
Loans and receivables to banks	2,122	257	-	-	-	-	-	-	282	**2,661**
Loans and receivables to customers	4,667	1,455	157	63	75	80	65	162	(253)	**6,471**
Financial investments available for sale	-	-	-	-	-	-	-	-	38	**38**
Other assets	3,427	-	-	-	-	-	-	-	777	**4,204**
Total assets	**10,216**	**1,712**	**157**	**63**	**75**	**80**	**65**	**162**	**844**	**13,374**
Liabilities										
Deposits by banks	1,462	588	39	17	13	18	4	114	-	**2,255**
Customer accounts	5,092	325	601	385	8	-	-	-	2,315	**8,726**
Debt securities in issue	-	59	-	-	-	-	-	-	-	**59**
Other liabilities	-	-	-	-	-	-	-	-	631	**631**
Shareholders' equity	-	-	-	-	-	-	-	-	1,703	**1,703**
Total liabilities and shareholders' equity	**6,554**	**972**	**640**	**402**	**21**	**18**	**4**	**114**	**4,649**	**13,374**
Derivative financial instruments affecting interest rate sensitivity	1,171	735	(556)	(457)	(107)	(100)	(106)	(580)	-	-
Interest sensitivity gap	**2,491**	**5**	**73**	**118**	**161**	**162**	**167**	**628**	**(3,805)**	**-**
Cumulative interest sensitivity gap	2,491	2,496	2,569	2,687	2,848	3,010	3,177	3,805	-	-

39. 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	
	2017	*2016	2017	*2016
	£m	£m	£m	£m
Cash and balances with central banks	3,583	3,458	3,583	3,458
Loans and receivables to banks[1]	474	1,262	474	1,262
Deposits by banks	(80)	(49)	(80)	(49)
Cash and cash equivalents	**3,977**	**4,671**	**3,977**	**4,671**

[1] Excluding regulatory balances with the Bank of England.
* 2016 figures are restated to exclude the regulatory balances with the Bank of England in 2016.

40. Statement of cash flows – investing activities

The table below sets out the cash flows from investing activities:

	AIB UK Group		AIB UK	
	2017	2016	2017	2016
	£m	£m	£m	£m
Sales and maturity of financial investments available for sale	7	19	7	19
Additions to property and equipment	(4)	(2)	(3)	(2)
Proceeds from disposals of property and equipment	2	-	2	-
Additions to intangible assets	(15)	(8)	(15)	(8)
Cash flows from investing activities	**(10)**	**9**	**(9)**	**9**

41. Financial assets and liabilities by contractual residual maturity

						2017
	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 receivables to banks	949	16	-	-	-	**965**
Loans and receivables to customers[1]	467	134	342	3,338	2,356	**6,637**
	1,416	**150**	**342**	**3,338**	**2,356**	**7,602**
Financial liabilities						
Deposits by banks	80	89	109	85	110	**473**
Customer accounts	7,284	902	669	179	-	**9,034**
	7,364	**991**	**778**	**264**	**110**	**9,507**

						2016
	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 receivables to banks	1,747	862	52	-	-	**2,661**
Loans and receivables to customers[1]	624	90	422	2,956	2,606	**6,698**
	2,371	**952**	**474**	**2,956**	**2,606**	**9,359**
Financial liabilities						
Deposits by banks	49	54	45	2,015	92	**2,255**
Customer accounts	6,926	798	607	395	-	**8,726**
Debt securities in issue	-	-	59	-	-	**59**
	6,975	**852**	**711**	**2,410**	**92**	**11,040**

[1] Shown gross of provisions for impairment.

The analysis by remaining maturity of loans and receivables 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.

42. Financial liabilities by undiscounted contractual maturity

The table below shows the undiscounted cash outflows, relating to principal and interest, on the AIB UK Group financial liabilities on the basis of their earliest possible contractual maturity. The expected cash outflows on some financial liabilities, for example customer demand deposits, vary significantly from the contractual cash outflows. In the daily management of liquidity risk, AIB UK Group adjusts the contractual outflows on customer deposits to reflect inherent stability of these deposits. Offsetting the liability outflows are cash inflows from the assets on the statement of financial position. Additionally, AIB UK Group holds a stock of high quality liquid assets (as outlined in note 17), which are held for the purpose of covering unexpected cash outflows.

						2017
	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	80	98	115	104	123	**520**
Customer accounts	7,284	906	673	180	-	**9,043**
Derivative financial instruments	-	6	14	58	63	**141**
Other liabilities	365	-	-	-	-	**365**
	7,729	**1,010**	**802**	**342**	**186**	**10,069**

						2016
	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	49	54	46	2,040	127	**2,316**
Customer accounts	6,932	804	618	401	-	**8,755**
Derivative financial instruments	-	2	19	62	73	**156**
Debt securities in issue	-	1	60	-	-	**61**
Other liabilities	391	-	-	-	-	**391**
	7,372	**861**	**743**	**2,503**	**200**	**11,679**

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

	2017	2016
	Repayable on demand	Repayable on demand
	£m	£m
Contingent liabilities	329	355
Commitments	1,393	1,507
Contingent liabilities and commitments	**1,722**	**1,862**

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

43. Related party transactions

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

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

(a) 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:

			2017			2016
	Number of persons	Number of loans	Balance at year end £m	Number of persons	Number of loans	Balance at year end £m
Key management personnel	6	13	1.3	6	15	1.0

Home and personal loans to key management personnel are made available on the same terms as are available to all staff. 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	
	2017 £m	2016 £m	2017 £m	2016 £m
Salary and other short-term benefits	3.1	3.1	0.5	0.5
Post-employment benefits	0.2	0.2	-	-
Termination benefits	0.2	0.2	-	-
Total	**3.5**	**3.5**	**0.5**	**0.5**

In 2017 there were 23 key management personnel for all or part of the year (2016: 25). 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 (2016: 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 (2016: nil).

Retirement benefits accrued to two key management personnel of which the accrued pension amount for the highest paid member at the end of the year was nil (2016: nil). The figure represents the accumulated total amount of accrued benefits payable at normal retirement date, as at 31 December 2017.

Termination benefits relate to severance payments made to key management personnel who left during 2017 and 2016.

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

AIB UK Group provides normal banking facilities for the UK Scheme and the AIB Group Employee Share Ownership Trust. Such services are provided on terms similar to those applied to third parties, except for the interest free loan to the Employee Share Ownership Trust which is to be repaid in 2018 now that the related share scheme is no longer operational (note 9). These are not material to AIB UK Group.

(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:

	2017		2016	
	Immediate parent	Subsidiaries	Immediate parent	Subsidiaries
	£m	£m	£m	£m
Statement of financial position				
Loans and receivables	-	2	-	3
Deposits	2	29	-	69
Income statement				
Interest expense and similar charges	-	1	-	2

(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. Prior to 2017, AIB UK Group managed its interest rate risk by borrowing long term funding (>1 year) from AIB plc and placing this shorter term. During 2017 AIB UK Group moved to using derivatives to manage its interest rate risk, rather than cash positions. This has resulted in a reduction in both loans and receivables and deposits with AIB plc at 31 December 2017.

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:

	2017		2016	
	AIB plc	Fellow subsidiaries	AIB plc	Fellow subsidiaries
	£m	£m	£m	£m
Statement of financial position				
Loans and receivables				
- Due from AIB plc and fellow subsidiaries	461	14	2,127	2
Deposits	467	57	2,251	44
Derivative financial instruments assets	21	-	37	-
Derivative financial instruments liabilities	113	-	139	-
Income statement				
Interest and similar income	26	-	36	-
Interest expense and similar charges	24	-	35	-
Trading and other income/(expense)	9	-	51	-
Administrative expenses/(income)	33	(10)	23	(10)

In 2017, there were no transactions between AIB UK Group and the ultimate holding company, AIB Group plc. (2016: not applicable).

(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 2017 AIB UK Group recognised £5.9m (2016: £3.1m) fair value amortisation income on these loans.

(g) Transactions with Key Management Personnel

Connected persons

The aggregate of loans to connected persons of Directors in office are as follows (aggregate of 2 persons; 2016: 3):

	Balance at 31 December 2017	Balance at 31 December 2016
	£'000	£'000
Loans	2	299
Total	**2**	**299**

The total interest received on these loans in 2017 was £0k (2016: £6k).

The loans are made on normal commercial terms, and there are no impairment provisions on any of these loans (2016: nil).

44. Capital, operating and finance lease commitments

(a) Operating lease rentals

AIB UK Group	2017 £m	2016 £m
Future minimum lease payments under non-cancellable operating leases		
- Within one year	5	4
- Between one and five years	18	9
- Over five years	9	7
Operating lease rentals	**32**	**20**

AIB UK	2017 £m	2016 £m
Future minimum lease payments under non-cancellable operating leases		
- Within one year	5	4
- Between one and five years	17	9
- Over five years	8	6
Operating lease rentals	**30**	**19**

The minimum lease terms remaining on the most significant leases vary from 1 year to 12 years. The average lease length outstanding until a break clause in the lease arrangements is approximately 5 years.

There are no contingent rents payable and all lease payments are at market rates.

Operating lease payments recognised as an expense for the year were £6m (2016: £3m). Sublease income amounted to Nil (2016: Nil).

(b) Capital expenditure not provided for in these accounts

There are no capital expenditures not provided for in these accounts.

(c) 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.

45. Events after the reporting period

On 16 February 2018 proceeds of £48m were received by AIB UK Group relating to the sale of a portfolio of loans to a third party (note 23). The loans had been derecognised from the balance sheet of AIB UK Group in December 2017.

There have been no other 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 (NI) Limited, a company registered in Northern Ireland. AIB UK Group is the smallest group for which consolidated accounts are prepared.

Under a Scheme of Arrangement approved by the High Court in the Republic of Ireland, which became effective on 8 December 2017, a new company, AIB Group plc, was introduced as the holding company of AIB plc. Prior to the Scheme of Arrangement, the ultimate parent company of AIB UK was AIB plc, a company also registered in the Republic of Ireland. AIB Group plc is now the ultimate parent company of AIB UK. The Ultimate Parent Group is the largest group, of which AIB UK is a member, for which consolidated accounts are prepared. The financial statements of AIB plc and of the ultimate parent company are available from AIB Bankcentre, Ballsbridge, Dublin 4. Alternatively, information can be viewed by accessing AIB's website at www.aibgroup.com.

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)
AIB Group plc	Holding company and ultimate parent of Allied Irish Banks, p.l.c. and AIB UK
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
AMLD	Anti-money Laundering Directive
APM	Alternative performance measure
BOE	Bank of England
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.
BRC	Board Risk Committee
BRRD	Bank Recovery and Resolution Directive
Buy to let	A residential mortgage loan approved for the purpose of purchasing a residential investment property to rent out.
CBI	Central Bank of Ireland
CDS	Credit Default Swap
CET 1	Common Equity Tier 1
CMA	Competition and Markets Authority
CMI	Continuous Mortality Investigation
Commercial paper	Commercial paper is similar to a deposit and is a relatively low-risk, short-term, unsecured promissory note traded on money markets issued by companies or other entities to finance their short-term expenses. In the USA, commercial paper matures within 270 days maximum, while in Europe, it may have a maturity period of up to 365 days, although maturity is commonly 30 days in the USA and 90 days in Europe.
Contractual maturity	The period when a schedule payment is due and payable in accordance with the terms of a financial instrument.
Core tier 1 capital	Called-up share capital, share premium and eligible reserves plus equity non-controlling interests, less goodwill, intangible assets and supervisory deductions as specified by the Central Bank.
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.
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
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.
Delinquency	Failure by a customer to repay an obligation when due or as agreed. In the case of loans and credit cards, this will arise when a payment of either capital and /or interest is 1 day or more overdue. Overdrafts are deemed to be delinquent if an approved limit is exceeded for 1 day or more.
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
EU	European Union
FCA	Financial Conduct Authority
Forbearance	Forbearance is the term that is used when repayment terms of the mortgage contract have been renegotiated to make payment terms more manageable for borrowers. Forbearance techniques have the common characteristics of rescheduling principal or interest repayments, rather than reducing them. Standard forbearance techniques employed by AIB UK Group include interest only, a reduction in the payment amount, a temporary deferral of payment (a moratorium), extending the term of the mortgage and capitalising arrears amounts and related interest.
FSG	Financial Solutions Group
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
FTB	First Trust Bank

Glossary of terms

FVA	Funding Valuation Adjustment
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
GIA	Group Internal Audit
IAS	International Accounting Standards
IBNR	Incurred But Not Reported
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
IFRIC	International Financial Reporting Interpretations Committee
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: (i) 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 (ii) 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
JST	Joint Supervisory Team, led by ECB and consisting of both ECB and Central Bank of Ireland supervisors.
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".
LIBOR	London Interbank Offered Rate

Loan to deposit ratio	This is the ratio of loans and receivables to customers as presented in the statement of financial position compared to customer accounts.
Loans past due	When a borrower fails to make a contractually due payment, a loan is deemed to be past due. 'Past due days' is a term used to describe the cumulative number of days that a missed payment is overdue. Past due days commence from the close of business on the day on which a payment is due but not received. In the case of overdrafts, past due days are counted once a borrower: - has breached an advised limit; - has been advised of a limit lower that the current outstanding's; or - has drawn credit without authorisation When a borrower is past due, the entire exposure is reported as past due, rather than the amount of any excess or arrears.
NAMA	Republic of Ireland's National Asset Management Agency
NIM	Net interest margin
NIRIL	Net Interest Rate Insensitive Liabilities
NPS	Net Promoter Score
NSFR	Net Stable Funding Ratio, the ratio of available stable funding to required stable funding over a 1 year time horizon.
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
PCM	Provisions Credit Methodology
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
PPI	Payment Protection Insurance
PSD2	Payment Services Directive 2 effective from 13 January 2018
PRA	Prudential Regulation Authority

Glossary of terms

Probability of Default (PD)	Probability of Default. This is the likelihood that a borrower will default on an obligation to repay.
RAROC	Risk Adjusted Return on Capital
Renegotiated loan	Loans and receivables renegotiated are those facilities outstanding at the reporting date that, during the financial year have had their terms renegotiated, resulting in an upgrade from default status to performing status. This is based on subsequent good performance and/or an improvement in the profile of the borrower. Where possible, AIB UK Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.
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.
Risk weighted assets (RWA)	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.
ROE	Return on Equity
RPI	Retail Price Index
Securitisation	The process of aggregation and repacking on non-tradable financial instruments such as loans and receivables, or company cash flow into securities that can be issued and trade in the capital markets.
SID	Senior Independent Director
SIC	Standard Interpretations Committee
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
SMT	Senior Management Team
SPPI	Solely Payments of Principal and Interest
SRB	Single Resolution Board
SREP	Supervisory Review and Evaluation Process
SRM	Single Resolution Mechanism

Stage 3 Customers	The definition of credit impairment (Stage 3) is aligned with the Groups definition of default, with the exception of restructured loans that are derecognised which are classified as Stage 1 at the point of restructure. The Group identifies defaults by using a number of characteristics, which may occur sequentially or simultaneously. The two key criteria resulting in classification are: - Where AIB Group considers a credit obligor to be unlikely to pay its 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.
SSM	Single Supervisory Mechanism
Tenterden	Tenterden Funding p.l.c.
Tier 1 capital	A measure of a bank's financial strength defined by the Basel Accord. It captures core Tier 1 capital plus other Tier 1 securities in issue, but is subject to deductions in relation to the excess of expected loss on the IRBA portfolios over the IFRS provision on the IRBA portfolios, securitisation positions and material holdings in financial companies.
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.
UKLM	AIB UK Loan Management Limited
UKRC	The AIB UK Group Risk Committee
UK Scheme	The AIB UK Group Pension Scheme
VAT	Value Added Tax
Vulnerable loans	Loans where repayment is in jeopardy from normal cash flow and may be dependent on other sources.
WAEP	Weighted Average Exercise Price

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