AIB Group (UK) p.l.c.
Annual Financial Report

For the year ended 31 December 2015

Company number: NI018800

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.

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2015 Performance Highlights

Operating performance

Profit before tax
£111m £97m ▲

Increased profitability from higher income (£19m), lower operating expenses (£12m), high level of provision write-backs (£34m) and lower exceptional operating expenses (£33m).

Net interest margin
3.24% 25bps ▲

Continuing positive momentum in net interest margin as funding costs reduce and growth in new lending improves asset income.

Total operating income
£254m £19m ▲

Continuing improvement in net interest margin. Strong credit related fees due to strong new lending and solid pipeline.

Operating expenses
£134m £12m ▼

Cost reductions in line with expectation driven by disciplined cost management. Cost/income ratio of 53%, an improvement from 62% in 2014.

Credit provision
£3m cr £34m ▼

Net recovery of £3m compared to a charge of £31m in 2014, reflecting significant progress on debt restructuring, economic recovery along with a reduction in new impairments.

Profit / (loss) after tax
(£87m) £14m ▼

Tax write off of £191m owing to changes in tax legislation with consequences for the recognition of the deferred tax assets. The reduction in the deferred tax asset has no impact on regulatory capital.

Balance Sheet / Capital

Capital adequacy ratio
16.3% 59bps ▲

Capital position remains very strong with the positive effect of profits generated in the period. The capital adequacy ratio is based on Common Equity Tier 1 (fully loaded).

New lending
£1.9bn 50% ▲

Strong growth in key segments reflecting support to small and medium-sized enterprises (SMEs) in Great Britain and Northern Ireland, underpinned by a solid Corporate GB performance which accounts for over 60% of new lending.

Customer deposits
£8.3bn £0.01bn ▲

Customer accounts remain stable at £8.3bn with continued stability in current accounts.

Impaired loans
£0.5bn £0.3bn ▼

34% reduction reflecting continued support for customers in difficulty through the implementation of sustainable restructuring solutions for customers coupled with improved economic conditions.

Provision coverage ratio
49% 3% ▼

Coverage rate remains at robust levels with a marginal change in percentage coverage.

Loan deposit ratio
78% 1% ▲

The increased loan deposit ratio reflects higher net loans and stable customer accounts.

Chairman's Statement

Peter Spratt
Chairman

I joined the Board of AIB UK Group during 2015 and, effective today, I became Chairman of the Board. It is an auspicious time to take on this responsibility. 2015 was a landmark year for AIB UK Group as it transitioned from completing its recovery and moving into a period of sustainable profitability and growth. A strong increase in new lending coupled with reductions in non-performing loans have been the highlights of this year and underpinned the return to sustainable profitability.

Business environment

Although growth in the UK economy in 2015 was slower than anticipated, domestic consumption continued to rise, and this had a positive impact on both the businesses of our existing customers, and the opportunities for new business in both of the geographic markets in which we operate.

The UK economy is projected to continue to grow in the immediate future, although some growth forecasts have recently been more cautious, due to uncertainties relating to the timing of any interest rate rises in the UK, the slowdown of the global economy, particularly in China, and the pending referendum on a potential UK exit from the European Union.

Financial performance and business strategy

In the year ended 31 December 2015, AIB UK Group recorded a financial profit before taxation of £111m before taxation, a significant increase on the profit of £14m in 2014.

The enhanced profit was driven by strong lending, a stable deposit base and a continued focus on managing our cost base. In addition, there was a write back of provisions for credit impairment reflecting a high level of bad debt recoveries and an improvement in the credit outlook for many of our customers.

During the year, AIB UK Group significantly increased its new business lending by £1.9bn, although this was largely offset by repayments of loans from some customers and also the deleveraging of a portfolio of criticised and non-performing loans at a modest discount to their carrying value. These movements have resulted in the quality of the overall loan book significantly improving during the year.

Our objective is to be the preferred bank in the markets and sectors in which we operate, with a reputation for delivering excellent customer service. In the support of delivering on this, AIB GB has established a strong foundation for sustainable growth through a refocused distribution model, and in Northern Ireland, the First Trust Bank continues to focus on providing simplified products, targeting a core personal market with selective business customers.

Customers and staff

Putting our customers first is at the heart of the brand values of AIB UK Group. We do this by getting to know our customers, listening to them and understanding their needs. We aim to provide them with the services they need, through a mix of personal relationship banking and digital channels. We want our customers to experience excellent service and to recognise that we treat them fairly. This is critical for all our customers but particularly so for our vulnerable customers and those in financial difficulty. I thank all our customers for their continued loyalty.

A key focus for me is to ensure AIB Group UK's culture is appropriate and transparent. We must conduct ourselves in a manner that looks after the best interests of our customers while ensuring our staff are empowered and engaged. Considerable effort has been made on supporting and developing our staff during the year, with a particular focus on living our brand values. My thanks to all the management and staff for their significant commitment and efforts over the last year. In addition, several of our operational services are provided in conjunction with our parent company and we thank our colleagues for their ongoing support.

Board of Directors

During the year there were a number of changes to the composition of the Board.

David Pritchard was appointed Chairman of the Board 8 years ago, just as the banking crisis was unfolding. His commitment, insight and measured leadership has been a critical factor in AIB UK Group surviving the crisis and in its subsequent recovery. On behalf of all the Board, management and staff of AIB UK Group I offer David our sincerest thanks and appreciation for his steadfast stewardship of AIB UK Group during the most difficult period in its history.

In early 2015, Steve Reid indicated his intention to step down as Managing Director of AIB UK Group. The Board and I are grateful for the contribution and energy that Steve brought to the role, and for his willingness to remain with us until a suitable successor was appointed. We are pleased to welcome Brendan O'Connor as the new Managing Director of the business. He brings a wealth of experience and knowledge to the role.

During the year Tom Foley and Pauline Egan were appointed to the Board. I am pleased to welcome them, and the experience that they will bring to Board deliberations.

Outlook

AIB UK Group is now well positioned to grow the business in our chosen markets while maintaining a superior customer service and experience delivered by our talented staff, which is underpinned by a continued focus on corporate governance. I believe there are exciting opportunities for AIB UK Group to grow and expand its offerings in the UK, delivered through reasonable and measured strategies. Our goal is to make an appropriate return on capital and be a positive contributor to the Parent Group over the coming years.

P.W. Spratt

P Spratt
Chairman
1 March 2016

Strategic Report

Brendan O'Connor
Managing Director

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1. Purpose of the Strategic Report

The Strategic Report is a statutory requirement under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, and is intended to be fair and balanced, and to provide information that enables the Directors to be satisfied that they have complied with Section 172 of the Companies Act 2006 (which sets out the Directors' duty to promote the success of the company).

The Strategic Report has been presented on a consolidated basis for the years ended 31 December 2015 and 31 December 2014.

2. Economic environment

UK Economic factors

While the UK economy continues to grow, growth in 2015 was slower than had been anticipated, with Gross Domestic Product (GDP) growing by 2.2%, down from 2.9% in 2014. Growth overall was unbalanced, with personal consumption remaining the driving force of the economy, whereas net trade was a significant drag, primarily as a result of increased imports. Despite the moderation in economic growth, job growth has picked up again with the unemployment rate falling to 5.8% in October 2015, its lowest rate since May 2008.

The solid pace of employment growth, weak inflation, real wage growth, an improved Eurozone economy and low interest rates all suggest that the UK economy should continue to grow at a reasonable pace. It still faces some headwinds, though, including high household debt, fiscal tightening and the negative drag on trade from a stronger sterling, as well as slower growth in emerging economies.

While the medium term outlook for the UK economy remains positive, real risks to its growth forecasts are evident with the expected timing and level of UK interest rate increases extending beyond previous forecasts. The global macroeconomic environment remains challenging with geo-political issues, deflationary pressures in the Eurozone, the growing uncertainty regarding the exit of the UK from the European Union, and heightened uncertainty in the global financial markets. Overall, UK GDP growth may average around 2% or slightly below it in 2016.

3. Business strategy

3.1 Business proposition

AIB UK operates in two distinct markets, Great Britain (GB) and Northern Ireland (NI), with different economies and operating environments. AIB UK Group's activities are carried out primarily through AIB UK in two brands – Allied Irish Bank (GB) in Great Britain and First Trust Bank in Northern Ireland. AIB UK Group is a bank registered in the United Kingdom and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In addition, the UK Structured Lending Solutions (SLS) unit is dedicated to managing all UK customers in financial difficulty on a case by case basis.

3.1.1 Allied Irish Bank (GB)

Allied Irish Bank (GB) (AIB GB) is a long established specialist Business Bank with a focus on Owner Managed Businesses (OMBs) and professional services, coupled with a strong Corporate Banking operation. AIB Group and AIB UK Group have been supporting businesses for over 40 years in Great Britain and provides a full clearing and day-to-day transactional banking services to customers in Great Britain.

AIB GB's strategy is to be a leading provider of full banking services to OMB and small corporates who value a high-service relationship in local geographies and in selected sectors. Dedicated relationship management teams work closely with our customers to establish and find solutions to our customers' funding requirements in line with business needs. AIB GB offers the full range of banking services, from lending for capital investment, through to managing customer money and provide a full transactional banking service. In addition, AIB GB has a committed and unique focus on British Irish Trade. AIB GB operates out of 16 locations in key cities across Great Britain and its business operations are segmented into a three tier model:

- Corporate Banking – Servicing the needs of larger more complex borrowers and providing the interface between Business Banking and the Corporate Market. Relationship Managers providing specialist industry and sectoral expertise. Services customers with borrowings of £10m+

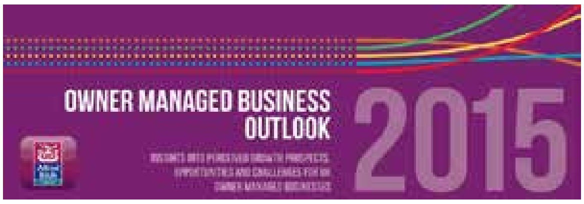
- Business Banking – Dedicated Relationship Managers (RMs) focussed on OMBs, based in 16 Business centres in key cities throughout Great Britain. Business Banking currently services c.1,500 customers with typical borrowing up to £10m

- Direct Banking – serving the needs of smaller OMBs with borrowings up to £1m (typical deal size £100k) and the personal banking requirements of business owners and personal savers through the provision of digital and self-service channels, with 68,000 customers serviced through this channel

AIB GB has approximately 1% of the business lending market in the UK. Through its new distribution model, which was fully implemented in 2015, and relationship management focus, AIB GB has a clear opportunity to increase its presence and market share in the UK market.

In May 2015, a specialist team with a key focus on Franchising was established, further re-enforcing AIB GB's commitment to expanding its services to the OMB market. Since its establishment, the franchising team have invested in researching the market, positioning AIB UK Group within the sector and investing in skills and experience in order to fully meet the needs and expectations of new clients, closing the year with a very solid pipeline.

2015 also witnessed the launch of the Owner Manager Business Outlook programme. This new bi-annual survey reinforces to both existing and potential customers our specialism in OMBs, our ability to take the time to understand OMBs, their businesses and in reflecting their views and concerns to the wider market place. It is providing valuable market insight into growth prospects, opportunities and challenges for business owners throughout the UK.



The No. 1 Brand Value at AIB UK Group is **'We put our customers first'** and it prides itself in providing exceptional customer service. Its commitment to this is reflected in its impressive history of business awards. For the past two years, AIB GB has won the Business Moneyfacts award for Best Service from a Business Bank.

During 2015, a comprehensive Customer Experience framework for GB was launched. The aim was to measure customer feedback through a range of initiatives designed to focus on improving customer satisfaction levels. This ranges from general service and relationship satisfaction through to confirming that needs have been assessed accurately and effectively once products have been sold. Response from customers has been very positive, as demonstrated by a 17 point increase in the relationship Net Promoter Score [1] between quarter 1 and quarter 4 in 2015. The Customer Needs reviews concluded that all of the customers assessed had been correctly matched to the products and services provided to them by AIB GB. The AIB GB "Voice of the Customer" programme, which is due to be launched in Q2 2016, will provide a measurable comparison from both an internal and external perspective, and will further strengthen our commitment to keep the customer at the centre of our business.

[1] The Net Promoter Score is a measurement programme that tracks AIB customers' loyalty and advocacy.

3.1.2 First Trust Bank (FTB)

FTB, with 30 branches and outlets throughout Northern Ireland, offers a full banking service, including online, mobile and telephone banking to business and personal customers across the range of customer segments, including professionals, high net worth individuals, SMEs, as well as the public and corporate sectors. The strategic aim is to be a challenger Bank in Northern Ireland, by focusing on sectoral expertise, lending to key niche SME segments and distributing simplified products targeting a core mass market personal market. The overall product proposition will include improved digital capability, closely aligned to that offered by the retail operations of AIB in the Republic of Ireland.

To enable FTB to deliver its strategic aim and ensure its customer's needs are at the forefront, FTB operates the following model:

- **Retail Banking** – Full range of personal banking services and products currently servicing 244,000 personal/retail customers across a mid-sized retail network of 30 branches.
- **Business & Corporate Banking** – A specialist and dedicated Relationship Manager approach to our business customers, across five business centres, servicing 25,000 customers.
- **Direct Banking** – High quality digital and self-service channels currently servicing c.84,000 customers per month from the Retail Banking and Business & Corporate Banking area.

FTB's commitment to AIB UK Group's No. 1 Brand Value is reflected in the encouraging outcome of the "Voice of the Customer" programme that was launched in late 2014 (integrated into the Group programme in 2015) with the Net Promoter Score increasing by five points, from 40 to 45 points in the second half of the year. An increased focus on strengthening the customer relationship is reflected in the 'Personal Customer Needs Review' which was introduced into the retail banking operation during 2014 and provides opportunities to strengthen customer relationships and drive suitability of product sale. Furthermore, the existing customer experience framework was continually developed and enhanced during 2015 with programmes launched across the branch network and further launches planned in 2016.

A key area of focus is the Business and Corporate Banking sector. FTB looked to build on its successful performance in this sector during the year through raising its corporate profile with industry bodies and through further expansion into the Agricultural sector. Building on the success of the Business Support Fund and specialist Agri-Food Fund launched in 2014, a new £50 million Business Growth Fund was launched in 2015 with the aim of supporting those businesses who wish to borrow in excess of £150,000 to expand and invest for the future. In support of its commitment to the corporate marketplace, FTB launched the co-branded 'Corporate Leadership Programme' with William J. Clinton Leadership Institute at Queen's University, Belfast[(2)]. In July 2015 FTB introduced a formal 'Business Needs Review' when engaging with its business customers, which is used as a key information source to understand and develop solutions that meet identified customer needs or create future leads that will support the business' life-cycle.

During 2015, two key branches in Northern Ireland, Donegall Square and University Road (pictured), underwent extensive refurbishment delivering modern, digitally enabled, banking facilities to customers. The significant investment made in these branches is evidence of FTB's commitment to enhancing the customer experience.

The branch investment programme offers customers a wider choice of how to engage with AIB UK Group in a way that is most suited to them in a modern banking setting, whether it be through traditional teller services or leading edge technology.

3.1.3 UK Structured Lending Solutions

AIB UK Group has an established Structured Lending Solutions group to assist all our customers in difficulty. This ensures there is a centre of expertise where the right people with the appropriate skills and products can tailor solutions for each customer on a case by case basis. In all cases possible AIB UK Group will work with its customers whether they are mortgage holders, SMEs or Corporate, to establish a path back to affordability and viability. The emphasis is on early engagement as it is mutually beneficial for the bank and customers to manage issues in a constructive way. Through this proactive management gross non-performing loans fell from £0.7bn at December 2014 to £0.5bn at the end of 2015, a 34% reduction. Of the £0.2bn reduction in loans achieved from a portfolio sale, £0.14bn related to non-performing loans.

[(2)] This programme sponsors two talented corporate banking staff and 10 corporate participants on a structured, but bespoke, leadership course. Participants have been selected by open competition under a bursary arrangement and, in addition to profiling and differentiating First Trust Bank in the marketplace, the programme supports FTB's corporate social responsibility to the local NI business community.

3.2 Customers and people

3.2.1 Customers

Putting our customers first is at the heart of everything AIB UK Group does. AIB UK Group continues to align its customer strategy and propositions across the business to ensure that our strategy, our technology and our staff's interaction with our customers is conducted in a customer centric way. The Board and Executive Management of AIB UK Group are committed to continuous action to maintain the desired conduct culture across the bank. Putting our customers at the heart of everything is fundamental to ensuring the long term success of AIB UK Group.

Being recognised for customer experience is a core objective of AIB UK Group's Business Model & Strategy. The strategic initiatives and priorities in the Business Strategy are underpinned by the core Brand Values and a commitment to fair treatment of all customers. These core brand values are:

- *We put our Customers first*
- *We are better together*
- *We are empowering*
- *We are building trust and appreciation*
- *We keep it simple*

As highlighted above, both AIB GB and FTB have launched a range of programmes in recent years reflecting their commitment to improving the customer experience including the Customer Experience Programme in AIB GB and the Voice of the Customer programme in FTB. Enhancing and simplifying the customer experience remains a top priority for both AIB GB and FTB, as demonstrated by the on-going focus on customer feedback and continual review and assessment of the customer engagement programmes.

To further enhance the customer experience and quality of service both AIB GB and FTB implemented new business models in 2015. These models were designed with a focus on enhancing the customer experience by dedicating its relationship management service more specifically towards those customers who need a high level of interaction with us, whilst improving the direct channel offering, for those customers better suited to a more automated and transactional form of banking. AIB UK Group is committed to keeping our business models under review and to adapt them as our customer requirements evolve and change

A key focus of all our staff is to ensure all our customers are treated fairly and are sold appropriately designed and fit for purpose products. AIB UK Group continues to actively engage with all our customers, and its key strategy is to enhance the quality of its service to our customers, whether it be through a dedicated Relationship Management team or an efficient and modern digital offering, and provide them with products that meet their requirements.

3.2.2 Digital enablement

The provision of high quality digital and self-service channels to our customers is a key area of investment for AIB UK Group.

The transactional activity for all UK customers is reported on a monthly basis and demonstrates a continuing trend away from traditional branch teller services towards digital solutions with mobile traffic increasing significantly.

Increase in Digital Channel Activity

December 2015 Value Transactions		Movement on Dec 2014	
Mobile	54k		60%
Online	115k	+	1%
Branch	298k	=	12%
Active Personal Digital Customers (y.o.y)		-	11%

3.2.3 People

Putting our customers first and delivering a sustained outstanding customer experience across all our distribution channels and franchise is only possible through our people. AIB UK Group has a highly committed and professional workforce. A key objective of the Board and Executive Management is to continue to support and develop our people so that they are engaged, customer focussed and highly motivated. This requires the right conduct based culture and tone at the top level to be in place. Our brand values describe the culture AIB UK Group are aiming for and focus on putting customers first, building trust and appreciation, empowering staff to do the right thing, making processes simpler, and working collaboratively.

Some of the key deliverables in 2015 in support of our people were:

- reaching agreement in relation to 2014/2015 pay proposals
- UK Senior Leadership programme launched and launch of emerging talent programme in FTB signalling an important shift in investing in people again.
- progress on UK engagement as demonstrated by a score of 3.90 out of a maximum score of 5, which is an increase of +0.31 on 2014
- coaching provided to 95 UK People Leaders on engagement and on creating the right environment for brand values to be lived
- introduction of a new performance management approach, Aspire – The Power of Values, for all staff in 2016. This will assess staff performance against their agreed objectives, in terms of what they achieved and how they achieved them.
- delivered workshops to women at all levels in the UK to encourage and promote personal development and networking.

3.3 Financial Performance

2015 was a year of significant progress for AIB UK, outperforming prior year in terms of income, costs and credit provisions. New lending demonstrated significant growth with drawdowns increasing 50% on 2014. AIB UK Group's pre-tax profit of £111m (2014: £14m) grew substantially with a strong underlying performance. Net loans increased £0.1bn in the year to £6.5bn, and after taking account of a loan portfolio sale during the year which reduced net loans by £0.2bn

The financial performance in 2015 has been achieved in an improving though still challenging economic environment in Northern Ireland and in the regions of GB, with more resilient economic conditions being experienced in London and South East GB. The UK banking market also remains very competitive across a number of AIB UK's product and customer segments

Financial performance

Income Statement[1]	2015 £m	2014 £m	2015 v 2014 £m
Total Operating Income	254	235	19
Total Costs	(134)	(146)	12
Operating profit	**120**	**89**	**31**
Total Credit Provisions	3	(31)	34
Profit before tax (pre-exceptionals)	**123**	**58**	**65**
Exceptional items	(12)	(44)	32
Profit before tax	**111**	**14**	**97**
Net interest margin %	3.24%	2.99%	0.25%
Cost income ratio %	52.8%	62.1%	9.3%

(1) *Income Statement format aligns to internal management reporting*

AIB UK achieved a significant increase in profitability.

Key drivers include a sharp reduction in Credit Provision charges owing to high levels of recoveries in both GB and FTB and lower level of one off exceptional charges in the year.

Income increases driven by higher income from customer accounts (i.e. deposit and current accounts), investment income on cash balances and credit related fees.

Costs declined 8% in the year driven by a reduction in personnel numbers.

Profit after tax

Although AIB UK Group recorded a pre-tax profit of £111m, after a tax charge of £198m the financial loss for the year was £87m.

The reduction of £191m during the year reflects the UK legislative changes introduced during the year which restricts the amount of a bank's annual profits that can be used to shelter unutilised tax losses, the reduction of the corporation tax rate to 18% from 2020, and the annual movement in the deferred tax charge.

Exceptionals

Exceptionals reduced from £44m in 2014 to £12m in 2015.

The 2015 charge included business transformation costs of £14m, conduct mis-selling provisions of £1m offset by a £3m credit in the onerous lease provision.

The 2014 charge was made up of £22m in respect of onerous leases, conduct mis-selling provisions of £18m, business transformation costs of £6m, offset by a £2m credit in respect of the gain on disposal of property.

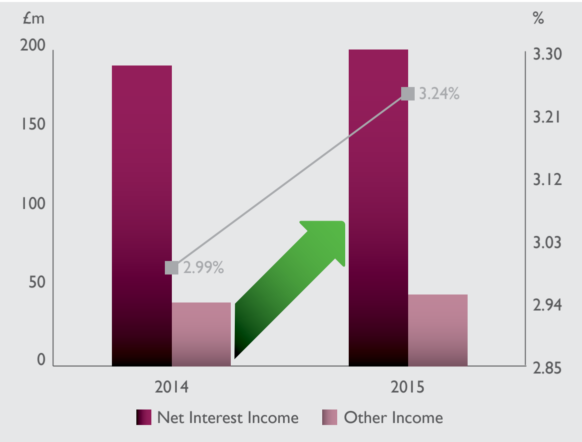
Growth in income

Total Income increased £19m in the year with Net Interest Margin increasing 25bps.

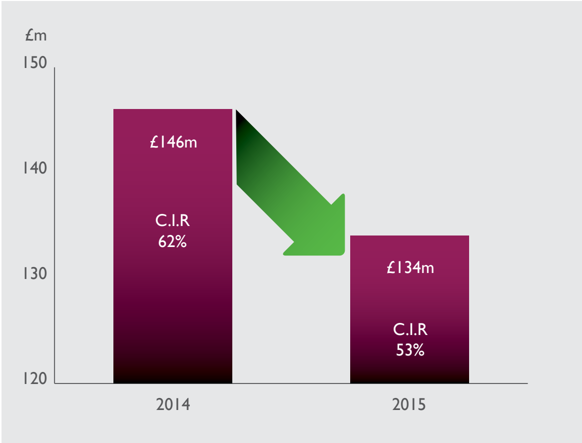
Key drivers in underlying income growth include £16m rise in customer accounts income driven by improved margin management.

Credit fees increased £4m in the year, underpinning the momentum gained in new lending drawdowns, particularly in revolving credit facilities and a solid pipeline.

An £18m one-off loss relating to a loan portfolio sale was offset by the favourable increase in valuation adjustments on sterling customer derivative positions (2015: credit of £4m, 2014: charge of £16m).



Lower costs and improved Cost/Income Ratio



A key strategic objective of AIB UK Group in recent years has been to improve operating performance through cost reductions.

The benefits of the various cost saving measures, including pay and benefit reductions, taken over the past three years continue to materialise. The positive impact of these measures is reflected in a declining cost base and improving Cost/Income ratio.

There is a continued focus on cost management as demonstrated by a downward trend in the cost/income ratio over the life of the business plan.

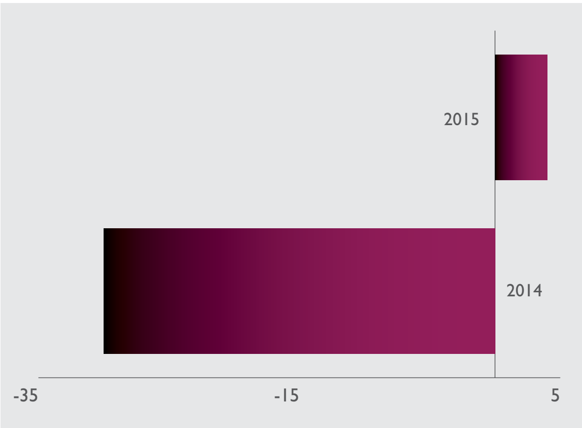
Loans provisions – net credit in 2015

Owing to pro-active management of the criticised book by SLS, there was a high level of recoveries in both GB and FTB, with Loan Provisions yielding a net recovery (credit) of £3m in 2015, compared to a charge in 2014 of £31m.

This level of high recoveries is seen in the Net Specific Provisions charge which fell from a charge of £57m in 2014 to a credit of £2m in 2015.

Incurred But Not Reported (IBNR) provisions were credits in both 2014 and 2015, driven by releases of £27m and £2m, respectively.

Net Loan Provision Charge/Credit 2014 vs 2015



Balance Sheet

Balance sheet	2015 £m	2014 £m
Earning gross loans	6,263	6,038
Impaired gross loans	490	767
Total gross loans	**6,753**	**6,805**
Specific provisions	(240)	(383)
IBNR provisions	(41)	(47)
Total net loans	**6,472**	**6,375**
Available for sale	54	31
Other assets/placings	6,391	7,257
Total assets	**12,917**	**13,663**
Current accounts	4,644	4,262
Deposits	3,683	4,033
Total customer accounts	**8,327**	**8,295**
Shareholders' equity	1,614	1,694
Other liabilities/funding	2,976	3,674
Total liabilities	12,917	13,663

Net loans increased £0.1bn in the year, reversing the declining trend witnessed over past six years. Underlying growth, excluding the impact of a loan portfolio sale, is a £0.3bn increase.

Both impaired loans and balance sheet provisions declined in the year. These reductions were driven by a combination of the loan portfolio sale and pro-active management of impaired loans by the UK SLS unit.

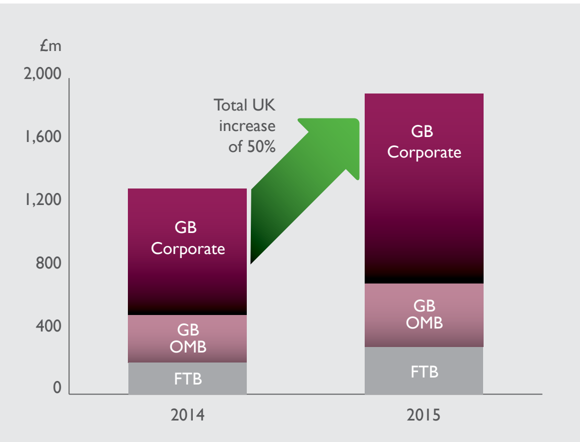
Customer accounts balances remained largely flat in the year with a resilient performance in current account movements offsetting outflows in term deposits.

New Lending

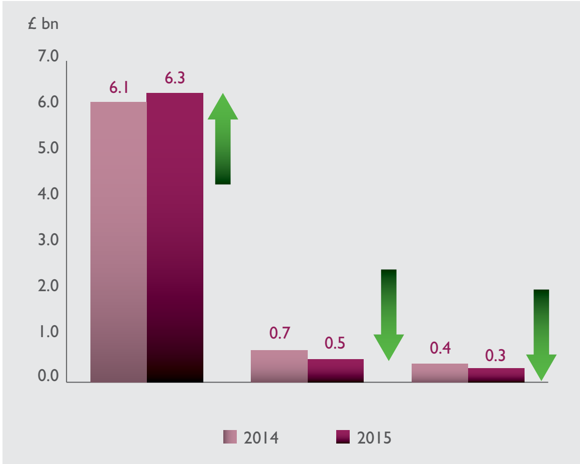
AIB UK continues to attract and retain new business in both FTB and GB. This shows the strength of its brands and the good work its people are doing to demonstrate to customers that it can differentiate itself on the quality of the service it provides.

£1.9bn of new lending drew down in 2015, representing a 50% increase on 2014. This is a very encouraging outcome and reflects the positive impact of the changes in the business model in recent years. New lending drawdowns gained momentum throughout the year, with levels increasing quarter on quarter.

New business was written across a range of key SME and OMB sectors in both AIB GB and FTB, underpinned by strong performances in both the GB Corporate Banking and GB OMB businesses, which increased 62% and 45% in the year, respectively.



Stabilisation of loan portfolio and improving credit quality



There has been stabilisation in the asset quality of the loan portfolio over the year with Total Net Loans increasing £0.1bn in the year – a reversal of the declining trend over the past six years, representing a key achievement for AIB UK.

Earning loans increased £0.2bn in the year. Excluding the impact of a loan portfolio sale, underlying loans increased £0.3bn owing to strong new lending.

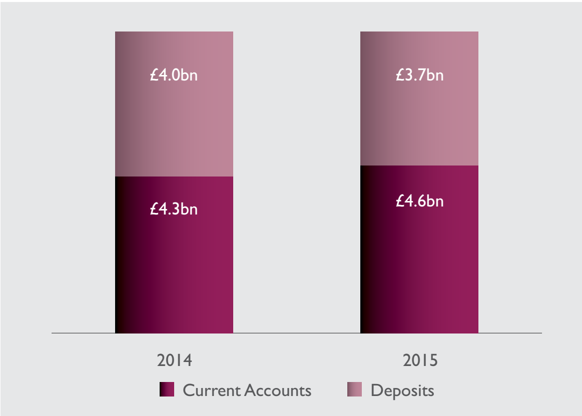
As highlighted earlier, both impaired loans and balance sheet provisions declined in the year. Non-criticised loans accounted for 78% of total loans at the end of 2015, compared to 68% in 2014.

Continued stability in current accounts

Total customer account volumes remained flat in the year with outflows in deposits offset by an increase in current accounts.

The increase in current accounts is driven by a combination of continued stability in a sustained low interest rate environment and higher customer balances owing to improved economic and trading conditions.

Product spilt of Customer Accounts 2014 vs 2015



3.4 Capital management and liquidity

3.4.1 Capital management

Capital

The policy of AIB UK Group is to maintain adequate capital resources at all times, having regard to the nature and scale of its business, and the risk inherent in its operations. It does this through an Internal Capital Adequacy Assessment 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.

Generally the internationally agreed minimum total capital (to risk weighted assets) ratio of 8% and Tier 1 capital (to risk weighted assets) ratio of 4% are the base standards from which the PRA sets individual minimum capital ratios for banks within its jurisdiction. In line with these requirements, AIB UK Group has agreed its minimum capital holdings with the PRA.

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, to comply with regulatory requirements and 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.

Capital Requirements Directive (CRD)

CRD IV, which came into force on 1 January 2014, is the EU directive which was developed in response to the banking crisis, and aims to strengthen the capital adequacy of banks. It maintains the approach of three distinct 'Pillars'. Pillar I is concerned with the calculation of the minimum capital requirements for credit risk, market risk and operational risk. Under Pillar II, banks are required to estimate their own internal capital requirements to cover all material risks (not limited to the Pillar I risks) as part of their ICAAP which is then subject to a Supervisory Review and Evaluation Process (SREP). Pillar III sets out required detailed disclosures of each of the Company's risks. AIB UK Group is exempt from Pillar III as it Parent Group gives consolidated disclosures under Pillar III.

The tables below show AIB UK Group's capital resources and capital base at 31 December 2015 and 31 December 2014.

Capital resources	2015 £m	2014 £m
Shareholders' equity	1,614	1,694
Total capital resources	**1,614**	**1,694**

Capital base	2015 £m	2014 £m
Tier 1 capital	1,141	1,022
Total capital	**1,141**	**1,022**
Total risk weighted assets	**7,003**	**6,498**
Capital ratios		
Tier 1 capital	16.3%	15.7%
Total	**16.3%**	**15.7%**

The Capital base increased by £119m during the year ended 31 December 2015 primarily as a result of trading profits during the year. As the deferred tax asset was already disallowed for capital purposes, the write-off of half of the deferred tax asset during the year as a result of legislative changes, had no impact on the capital position. AIB UK Group's risk weighted assets increased by 8% in 2015 as a result of the net increase in loans outstanding as at 31 December 2015 compared to the previous year.

AIB UK Group's Common Equity Tier 1 (CET 1) ratio is 16.3% as at 31 December 2015 (2014: 15.7%) and its leverage ratio is 10% on the same basis (2014: 10%).

3.4.2 Liquidity

AIB UK Group has a strong funding position. The loan to deposit ratio was 81% at 31 December 2015, the same as at 31 December 2014. Regulatory liquidity requirements were met at all times throughout the year, and as at 31 December 2015, AIB UK Group had £2.2bn of cash and liquidity in excess of regulatory requirements.

A substantial amount of the AIB UK Group's funding is from its customer deposits, which makes up 64% (2014: 60%) of its total liabilities. When Deposit by Banks that relate to Parent Group balances (which can be offset against Parent Group Loans and receivables to Bank balances) are excluded, customer deposits make up 78% (2014: 76%) of AIB UK Group's funding. Debt funding is principally made up of AIB UK Group's mortgage backed securitisation, Tenterden Funding p.l.c., of £0.2m (2014: £0.2m).

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 minimum Net Stable Funding Ratio (NSFR) requirement is expected to be introduced in January 2018 at 100%. The PRA introduced a minimum LCR requirement for UK Banks of 80% from 1 October 2015, increasing to 90% from 1 January 2017 and 100% from 1 January 2018. Based on the revised Basel standards and their EU implementation through the Capital Requirements Directives and Regulations, AIB UK Group is well in excess of these ratios based on its current liquidity profile.

Further details on the Liquidity regulatory environment are set out in the Liquidity Risk section of the Risk Management report on page 38.

3.5 Principal risks and uncertainties

AIB UK Group is exposed to a number of material risks and implements comprehensive risk management strategies to minimise these risks. These risks and uncertainties and AIB UK Group's risk management strategies are discussed in section 1 of the Risk Management section of this Annual Report.

4. Regulatory and other evolving issues

4.1 Increased regulation and supervision

A significant number of new regulations have been issued by the various regulatory authorities in the recent past. The Eurozone's largest banks, which includes the Parent Group, came under the direct supervision of, and are deemed to be authorised by, the European Central Bank (ECB), since the introduction on the 4 November 2014, of the Single Supervisory Mechanism (SSM). The main aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe.

4.2 Recovery and resolution planning

The PRA regulations and guidance on Recovery and Resolution Planning were updated in early 2015 in light of the requirements arising from the Bank Recovery and Resolution Directive (BRRD). The BRRD is a single EU-wide rulebook designed to address bank and investment firm failure by adding a common recovery and resolution framework to the already established SSM and it has been transposed into law in all EU member states.

In addition to the SSM, a Single Resolution Mechanism (SRM) came into effect on 1 January 2016 to ensure that supervision and resolution is exercised at the same level for countries that share the supervision of banks within the SSM. The SRM encompasses a decision-making body, the Single Resolution Board (SRB), and a single fund for the resolution of banks. The SRB is responsible for drawing up resolution plans and adopting all decisions relating to resolution for credit institutions directly supervised by the ECB and other cross border groups, which includes the Parent Group.

The new framework established by the BRRD and SRM is intended to enable resolution authorities to resolve failing banks with a lower risk of triggering contagion to the broader financial system, while sharing the costs of resolution with shareholders and creditors. Provisions are included in the BRRD for 'bail-in' of senior creditors where necessary. Relevant metrics that are also to be introduced include the Minimum Requirement for own funds and Eligible Liabilities (MREL) which is designed to ensure that banks have sufficient loss-absorbing and recapitalisation capacity through capital and liabilities.

4.3 Senior Managers and Certification Regime

As a UK registered bank authorised by the PRA, AIB UK Group is subject to the requirements of the Senior Manager Regime (SMR) which comes in to effect on 7 March 2016. The SMR replaces the Approved Persons regime and is intended to enable regulators to hold senior managers to account for the quality of their decision making.

4.4 Regulatory change horizon

As further regulatory reforms continue to emerge from the regulators AIB UK Group will continue to focus on the management of regulatory change and its compliance obligations.

By Order of the Board

B O'Connor
Director
1 March 2016

Risk Management

Page

1. Principal risks and uncertainties

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 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. 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.

Sections within this report marked with an asterisk (*) form part of the audited financial statements.

1.1 Risk philosophy

AIB UK Group has adopted a broad set of risk management principles reflecting its risk philosophy and culture, and articulating the high-level standards against which risk taking decisions are made. The key principles are:

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

The risk governance functions perform independent oversight of the management of risk by the business units and provide assurance to the Board. The Board approves business strategy and the objectives designed to achieve business strategy. Line management is responsible for managing these objectives within the enterprise risk framework. The Enterprise Risk Management approach ensures that AIB UK Group has in place a process for setting business objectives which are consistent with its risk appetite.

1.2 Macro-economic and geopolitical risk

AIB UK Group's business may be adversely affected by the economic and market conditions it operates in. AIB UK Group's business may be adversely affected by deterioration of the United Kingdom economy, the Irish economy, or the wider global economy. Such deterioration could result in reductions in business activity, lower demand for its and services, reduced availability of credit, increased funding costs and decreased asset values.

General economic conditions continue to be challenging for customers. Any deterioration in borrowers' disposable income could negatively impact customers' ability to repay existing loans, which could result in additional write-downs and impairment charges. Challenging economic conditions will also influence the demand for credit in the economy.

Deterioration in the economic and market conditions of the UK economy could negatively impact on AIB UK Group's income, and may put additional pressure on the management of its cost base. Market conditions are also impacted by the competitive environment in which it operates, and the entry of new competitors can put additional pressures on AIB UK Group's income streams and overall financial performance. AIB UK Group is reliant on the Parent Group for its funding requirements in extremis. Constraints on the Parent Group's access to funding may adversely affect liquidity risk management. The Group funds its activities primarily from customer deposits, and any loss of confidence by depositors could lead to a loss of funding or liquidity over a short period of time. AIB UK Group's liquidity management framework sets out the manner in which the funding and liquidity risk profile is managed.

AIB UK Group is not exposed to trading risk, as it does not enter into proprietary trading of financial instruments or trade with the wider market. However, AIB UK Group could be adversely impacted by any change in the Parent Group's market or trading risks.

AIB UK Group may also be impacted by regulatory and political actions by European governments in response to the European financial crisis. A decision by the UK to leave the European Union could have an adverse effect on AIB UK Group's business and financial performance. AIB UK Group actively considers the impact of a potential exit from the EU as part of its scenario planning process.

2. Framework

Introduction

AIB UK Group's Strategic Objectives are to be a leading provider of full banking services to Owner Managed Businesses (OMB) and small corporates who value a high-service relationship in local geographies and in specific sectors in GB; and in addition to provide a Direct Banking proposition to all other GB customers; and to deliver a full retail and business banking multi-channel service in Northern Ireland.

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

- protecting the business franchise, whilst
- delivering sustainable profitability, and
- optimising risk within its approved risk appetite at the appropriate return.

Risk management is central to the delivery of these objectives. AIB UK Group's risk framework is based on the risk framework of the Parent Group. The diagram below sets out the central components of AIB UK Group's integrated approach and risk management framework.

2.1 Risk management framework

The strategic risk objectives which support delivery of AIB UK Group's overall strategic objectives are:

- formulate AIB UK Group's risk appetite and ensure that the risk profile and business and financial plans are consistent with it;
- promote a strong risk culture throughout the organisation;
- establish and 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 and restore viability;
- support improvements in operational and strategic decisions throughout AIB UK Group; and
- foster an environment of continuous improvement and learning from mistakes.

The risk management framework sets out the principles, roles and responsibilities, governance arrangements and processes for risk management across AIB UK Group to support the risk strategy.

2.2 Risk strategy and appetite

The Board is responsible for setting the business strategy. The risk strategy ensures the delivery of the business strategy within the Bank's agreed risk appetite, by improving the quality of credit analysis and efficiency of decision making, and ensuring that the first line of defence has the correct risk data upon which to make informed and customer centric business decisions. Risk appetite is defined as the maximum amount of risk that AIB UK Group is willing to accept or tolerate in order 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 but specifies key principles and metrics relevant to it. Appetite is defined across all of AIB UK Group's material risks and is expressed both qualitatively and quantitatively in the form of limits, delegated authorities and strategic targets.

2.3 Risk and governance

2.3.1 Risk management organisation – committees with risk management responsibilities

The Board has delegated a number of risk governance responsibilities to various committees and key officers. The committees under its authority, report regularly to the Board. These committees comprise of Non-Executive Directors whom the Board has determined have the collective skills and experience to enable the relevant Committee to discharge its responsibilities.

The Board is responsible for approving high level policy and strategic direction in relation to the nature and scale of risk that AIB UK Group is prepared to assume in order to achieve its strategic objectives. The Board ensures that an appropriate system of internal controls is maintained and reviews its effectiveness.

Specifically, the Board:

- sets the risk appetite, incorporating risk limits;
- approves UK specific risk frameworks, key UK policies and principles;
- approves stress testing and capital plans under AIB UK Group's internal capital adequacy assessment process 'ICAAP'; and
- approves other high level risk limits as required by credit, capital, liquidity and market policies.
- The Board Risk Committee (BRC) has responsibility for:
- providing oversight and advice to the Board in relation to current and potential future risks facing AIB UK Group and risk strategy in that regard, including AIB UK Group's risk appetite, culture, risk management framework, and tolerance;
- the effectiveness of AIB UK Group's risk management infrastructure, principles and policy; and
- considering and acting upon the implications of reviews of risk management undertaken by risk function, Group Internal Audit and/or external third parties to ensure they are consistent with the strategy, regulatory requirements, corporate governance principles and industry best practice and cognisant of the Parent Group framework.

The Board is further supported by the following executive committees:

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

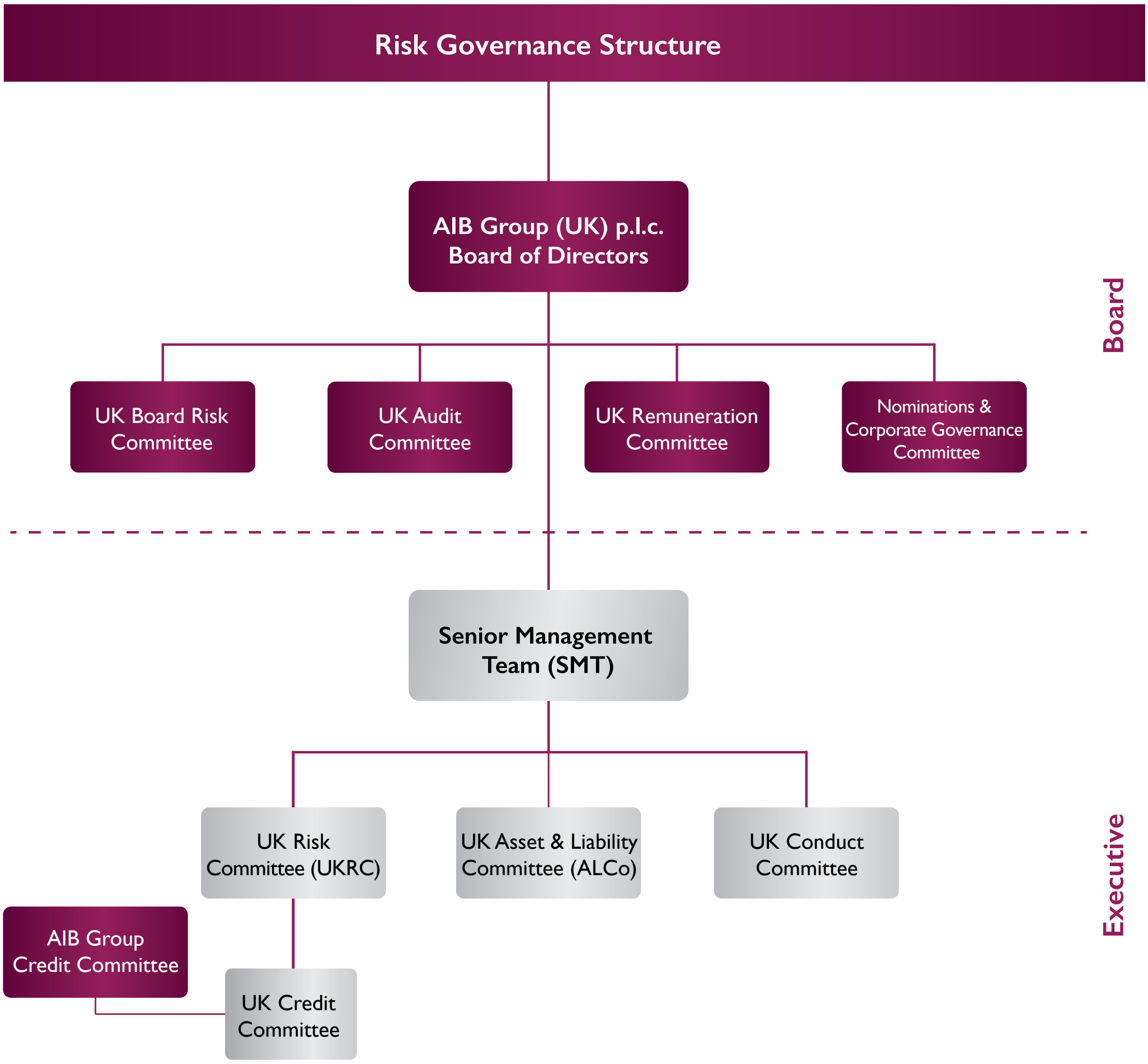
UK Risk Committee (UKRC) is responsible for governance of all risks and operates on behalf of, and derives powers from, the SMT. Chaired by the Managing Director, membership includes members of the SMT. The committee is tasked with ensuring that the risks within AIB UK Group are clearly understood, reported and action plans approved where appropriate to manage or mitigate such risks, within an agreed risk appetite.

UK Asset & Liability Committee (ALCo) acts as AIB UK Group's strategic balance sheet management body that combines a business-decisioning and risk governance mandate. It is chaired by the Chief Financial Officer and tasked with decision-making in respect of AIB UK Group's balance sheet structure, including capital, liquidity, including the management of the net funding and market risk positions held with Parent Group.

Conduct Committee oversees AIB UK Group's conduct risk management and plays a key role in promoting and supporting a customer centric ethos and culture across the UK Bank. It is chaired by the Head of UK Change & Customer Standards and focuses on ensuring that AIB UK Group treats its customers openly and fairly, conducts business with its customers in a professional manner, is a responsible employer and consistently adheres to the AIB Group values.

The formal risk governance and risk management organisation operated within AIB UK Group extends into the framework operated by the Parent Group where the interests of AIB UK Group are represented in the different committees. An example of this is where there are clear risk based matrices for lending decisions that can be taken within AIB UK Group and when this requires submission to the Parent Group Credit Committee, or higher authority, for review and approval. Similar formal linkages exist throughout AIB Group and its subsidiaries.

Figure 1 – AIB UK Group UK Risk Committee Structure



2.3.2 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. The objective is to ensure that business decisions strike an appropriate balance between risk and reward, consistent with the Risk Appetite Statement.

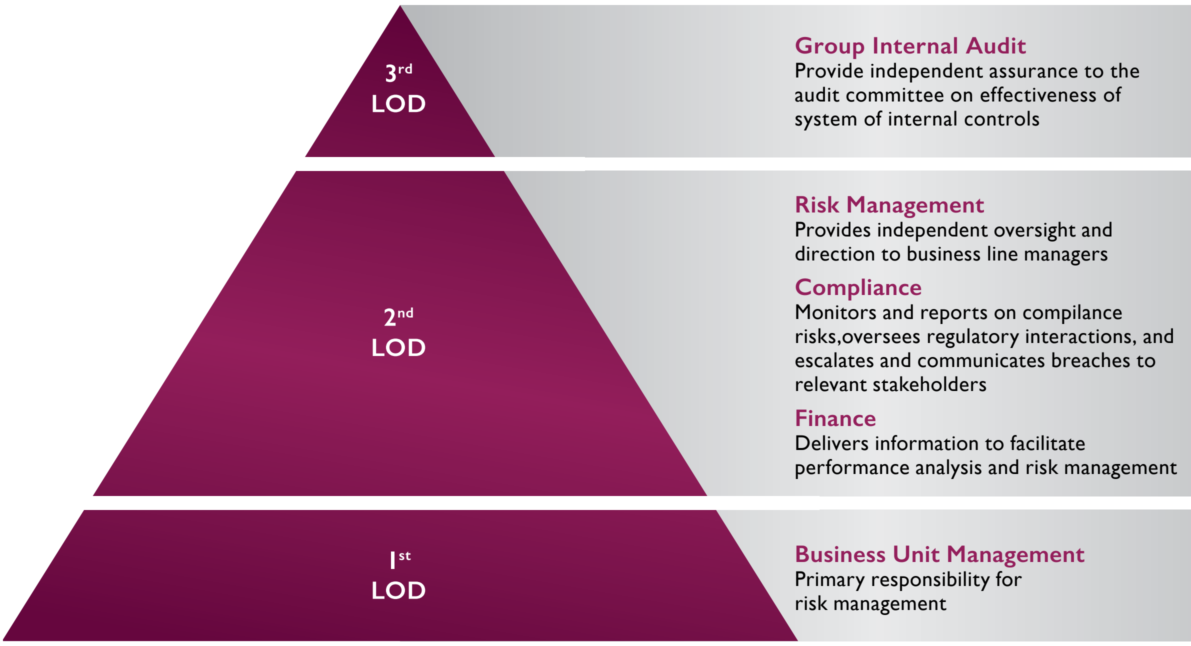
All employees have a responsibility to understand and be familiar with the policies, procedures and standards used to manage risks related to their role or business area. The following diagram describes the risk management objective which is supported by the three lines of defence framework.

Figure 2 – Multiple lines of defence ensures strong risk management culture

Going beyond "meeting regulatory requirements"

AIB Risk Management has a mandate to:

Clear Three Lines of Defence (LOD) Framework



Responsibilities under the three lines of defence are as follows:

All Business and Support Units (First Line)

All business and support units are responsible and accountable for the identification, assessment, management, monitoring and reporting of the individual risks that arise in their areas of responsibility. These risks are managed within delegated authority and risk appetite limits and in compliance with the policies, systems and controls defined or approved by the risk function and set out in approved frameworks and policies.

Risk, Finance and Compliance Functions (Second Line)

The Second Line, comprising Risk, Finance and Compliance, is responsible for providing independent oversight and challenge to the business line managers with regard to risk management. Oversight involves regular monitoring and reporting of risk management activities. Challenge requires proactive engagement with all managers to test and confirm the integrity and effectiveness of first line risk management.

The full scope of second line activities varies with the risk category and specific strategic and business processes. For some risk categories, it may also include providing advice, methodologies, tools, training, continuous detailed assurance monitoring and validation testing. These variations in scope are set out in detail in the individual risk frameworks and policies.

Group Internal Audit (Third Line)

Group Internal Audit (GIA) provides independent assurance to the Audit Committee of the UK Board on the adequacy, effectiveness and sustainability of the governance, risk management and control framework throughout AIB UK Group, including the activities carried out by other control functions. The results of GIA audits are reported quarterly to the AIB UK Group Audit Committee, which monitors both resolution of audit issues and progress in the delivery of the audit plan.

Individual risk frameworks set out clearly the roles and responsibilities of the three lines of defence in relation to that specific risk or process e.g. the roles and responsibilities of the three lines of defence in relation to credit risk are set out in the credit risk framework.

2.4 Risk identification and assessment process

Risk is identified and assessed throughout AIB UK Group through a combination of detailed bottom-up and top-down risk assessment processes.

Bottom-Up Assessment

First line risk management is responsible for ensuring that detailed bottom-up risk and control assessments are undertaken for all businesses or business processes falling under their responsibility. These risk assessments are performed regularly or whenever there is a material change in organisation, business processes or business environment.

For some risks, such as compliance and operational risk, the bottom-up risk assessment may take the form of a risk and control self-assessment risk template (SART). Other risks, such as credit, lend themselves to more quantitative risk measurement methodologies and reporting requirements. The frequency and nature of the risk assessments may vary depending on the risk being assessed

Product Approval Process

AIB UK Group has an established product approval process in place for all new products or changes to the characteristics of existing products covering development of new markets, products and services and new or re-launched customer products. The product approval process identifies and assesses all of the risks arising from the implementation of any new customer product and seeks to ensure they are mitigated satisfactorily. It also ensures that the relevant support and control functions have considered the impact of the proposal on their activities (including suitable mitigants to any risks) and that it is within the risk appetite of AIB UK Group.

Top-Down Assessment

There are a number of key processes undertaken as part of AIB UK Group's top-down assessment of risk. The following diagram illustrates how this is brought together for AIB UK Group with outputs and governance committees. Although presented as a series of sequential steps in practice the processes are interlinked. For example, analysis undertaken within an ICAAP submission will further enhance the quality of the assumptions that are developed as part of the Material Risk Assessment (MRA).

Material Risk Assessment

AIB UK Group undertakes a comprehensive top-down MRA on an annual basis. The MRA seeks to ensure that all significant risks to which AIB UK Group is exposed have been identified and are being appropriately managed. The MRA is a key process in the ICAAP framework.

Figure 3 – Top down risk identification and assessment processes

Process	Responsibility	Output	Reviewed and Approved by				Noted by
Material Risk Assessment	UK Risk	Material Risk Assessment (MRA) Report	UKRC	UK BRC	UK Board		
Set Risk Appetite	UK Risk	Risk Appetite Statement (RAS)	UKRC	Group ERC	UK BRC	UK Board	
Strategic & Financial Planning	UK Finance UK Risk	Business & Financial Plan Capital Plan	UK SMT	Group LT	UK Board	Group Board	
Stress Testing	UK Risk UK Finance	Stress Testing Results	UKRC	UK ALCo	UK BRC	UK Board	
Capital & Liquidity Adequacy Management	UK Risk UK Finance	ICAAP Report ILAAP Report	UKRC	UK ALCo	UK BRC	UK Board	Group ALCo
Recovery & Resolution	UK Finance	Recovery Plan Resolution Pack	UK SMT	UK Audit	UK Board		

Internal Capital Adequacy Assessment (ICAAP)

It is AIB UK Group policy to maintain adequate capital resources at all times, having regard to the nature and scale of its business and the risks arising from its operations. The ICAAP is the process by which AIB UK Group performs a formal and rigorous assessment of its balance sheet, business plans, risk profile and risk management processes to determine whether it holds adequate capital resources to meet both internal objectives and external regulatory requirements.

The ICAAP is neither a stand-alone process nor an end in itself. It is a collective term for a range of framework, policies and procedures which straddle strategic and financial planning, the setting of risk appetite, risk assessment, monitoring and reporting and the means by which AIB UK Group satisfies itself that it holds sufficient capital. Parts of the Risk Management Framework and subsidiary individual risk and risk framework documents therefore play a key role in the overall ICAAP process. The ICAAP process is completed annually, as a minimum.

The Internal Liquidity Adequacy Assessment Process (ILAAP)

The AIB UK Group Liquidity Policy is to ensure at all times, the availability of sufficient funds to meet claims arising from either liability demands or asset commitments, actual or contingent, at an economic price. AIB UK Group is required to identify, measure, manage, and monitor liquidity and funding risks across different time horizons and stress scenarios, consistent with the risk appetite set by the AIB UK Group Board which takes account of the size, nature, and complexity of the AIB UK Group business.

The ILAAP report provides the AIB UK Group Board with a qualitative and quantitative evaluation of AIB UK Group's Liquidity Risks, its resources and requirements. The ILAAP report sets out the risk management framework AIB UK Group employs to manage its liquidity risk, is forward looking, incorporates its future funding plan and details the contingency measures available to the firm to adequately manage liquidity in times of stress. The report provides the Board with assurance that the ILAAP is integrated into the firm's management processes and decision making culture. The ILAAP process is completed annually, as a minimum.

Stress Testing & Scenario Analysis

The Bank undertakes Pillar II stress testing and scenario analysis to support its regulatory requirements under the ICAAP and Supervisory Review and Evaluation Process (SREP), as stipulated in CRD IV which encapsulates the Prudential Sourcebook for Banks, Building Societies and Investment Firms. The impact of downturn scenarios, calibrated to a regulator-defined severity, on portfolios is assessed over time horizons of up to five years and across all material risk types (e.g. credit risk, operational risk, concentration risk). This exercise forms part of the Capital Planning Buffer assessment which aims to ensure that a sufficient level of capital resources is maintained to withstand even a severe downturn. Stress tests and scenario and sensitivity analysis also form an integral part of the ILAAP to ensure that liquidity risk can be appropriately managed.

Strategic decision making is informed by taking into account potential and emerging threats to the business. Reverse stress testing is undertaken in support of AIB UK's recovery planning i.e. the means by which AIB UK assesses the key threats to its viability and the available mitigants to address them.

Recovery Planning

The AIB UK Group Recovery Plan is an integral part of the overall business, financial and risk management frameworks. It builds on existing processes, contingency plans and management actions identified in these Frameworks including the Risk Appetite Framework, the ICAAP and ILAAP and Liquidity Contingency Plan (LCP), the Integrated Financial Planning Framework, and the Stress Testing Framework. AIB UK Group's Recovery Plan is used by management to identify, assess and action material options AIB UK Group should consider undertaking in an extreme stress where the viability of AIB UK Group is in doubt. The Recovery Plan is updated on an annual basis and takes into account recovery actions that focus on the preservation or generation of liquidity and capital to maintain the viability of AIB UK Group.

2.5 Risk reporting

All significant risks are reported regularly to the Board and SMT so that they can have an understanding of AIB UK Group's risk profile against its agreed risk appetite, and take appropriate action(s). Risk Management Information is presented, with appropriate content and presentation to the UKRC, the BRC and the UK Board.

At a consolidated level, a monthly 'Chief Risk Officer's' (CRO) Report is presented to the UKRC and quarterly to BRC which sets out the risk profile of AIB UK Group and seeks to identify emerging threats and mitigating actions. A shorter consolidated version is provided monthly to the AIB UK Group Board. This report provides an integrated view of risk and provides clear information on risk profile issues, control weaknesses, performance against appetite and how well this is embedded into the operating model. Material risks are assessed cross-group to identify the aggregated risk impact. Other key risk reports presented by the CRO include the annual MRA, which is also included within the AIB UK Group ICAAP Report.

Risks are reported to other fora within AIB UK Group, and to segment and central function management teams. Typically risk reports may include the following information:

- an overview or "Dashboard" report summarising risk profile by risk category and comparison against relevant risk appetite limits;
- information on significant individual risks and incidents as defined by the Risk Rating and Exception Reporting Standard (incidents include risk events, losses, risk appetite breaches, external and internal audit findings and policy breaches); and
- status reports on any outstanding Management Actions.

Risk reports are also produced to satisfy regulatory and other external requirements including Annual Report disclosures.

3. Principal risks

3.1 Credit risk

Principal risks

AIB UK Group is a provider of credit facilities to personal, commercial, and corporate customers and any adverse changes in the economic and market environment and events impacting individuals not driven by adverse economic or market factors 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 that may give rise to a loss for AIB UK Group thereby impacting profitability.

Mitigating actions

Growth in the lending book takes place within clearly defined parameters set by AIB UK Group's strategy and the Risk Appetite Statement which continue to be reviewed annually and monitored on a monthly basis. Whilst the lending portfolio is largely UK-centric, AIB UK Group seeks to avoid undue concentrations; for example, by sector/industry caps for commercial businesses and loan to value and geography for retail secured lending together with other metrics that are monitored and reported on throughout the year to the various risk governance bodies.

Credit policies are in place, aligned to AIB UK Group's Risk Appetite Statement to effectively manage risk which are regularly reviewed to ensure that they remain fit for purpose. Credit policies ensure that there are clear levels of authority to make lending decisions most of which comprise a Dual Credit Authority that requires approval from both Business and Credit.

Credit risk on lending activities to customers is the risk that AIB UK's counterparty defaults prior to maturity and AIB UK may be unable to recover the outstanding loan balance, which may result in a loss. AIB UK Group uses standard loan agreements to manage this risk and assesses collateral and security to ensure the risk is mitigated by a charge on the underlying asset, where appropriate. In cases where there is no security, a risk assessment is performed based on future cash flows and affordability of the borrower.

Robust credit processes and controls are in place and are tested via an independent credit risk assurance process.

As part of the restructuring of AIB UK Group's operations, a dedicated team was established in November 2013 to monitor and manage vulnerable loans and those types of facility that were deemed to be non-core to the future business. The Structured Lending Solutions Team (SLS) is resourced by experienced restructuring and recovery staff. SLS's resources are focused on the management and timely engagement with customers across commercial and retail portfolios involving high risk, forborne and impaired situations. Any restructuring of loans has to follow a rigorous approval process to ensure that the outcome is fit and appropriate for both the customer and AIB UK. Given the importance of this part of AIB UK's operation from a credit risk and conduct perspective, the activities of SLS are closely scrutinised both internally and via regular credit reviews.

3.1.1 Definition of credit risk

Credit risk is defined as the risk that a customer or counterparty will be unable or unwilling to meet a commitment that it has entered into and that AIB UK Group is unable to recover the full amount that it is owed through the realisation of any security interests. The credit risks in AIB UK Group arise primarily from lending activities to customers but also from guarantees, derivatives and securities.

Concentrations in particular portfolio sectors, such as property and construction can impact the overall level of credit risk.

Credit risk management objectives are to:

- establish and maintain a control framework to ensure credit risk taking is based on sound credit management principles;
- 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 and within each separate business, from the level of individual facilities up to the total portfolio; and
- monitor credit risk and adherence to agreed controls.

AIB UK Group lends to personal and retail customers, commercial, corporate and government entities and banks. Credit risk arises on the drawn amount of loans and receivables, but also as a result of loan commitments, such as undrawn loans and overdrafts, and other credit related commitments, such as guarantees, performance bonds and letters of credit. These credit related commitments are subject to the same credit assessment and management as loans and receivables.

Organisation and structure of credit risk

Credit risk is managed and controlled within AIB UK Group through an established credit process and within a framework of credit policy together with delegated authorities based on skill and experience. Credit grading, scoring and monitoring systems accommodate the early identification and management of any deterioration in loan quality. The credit management system is underpinned by an independent system of credit review and carried out in accordance with defined methodologies and standards, as well as independent quarterly criticised loan reviews.

Delegated authority is a key credit risk management tool. The Board uses this tool when establishing limits to credit authority that have been clearly defined in the Credit Authorities and Review Authorities Framework for AIB UK. This Framework document outlines the principles of Dual Sign-off, or Dual Credit Authority ("DCA"), for the approval of Exposure Limits i.e. each application for Exposure Limits will carry the recommendation and approval of the Business Area but to be valid will require the independent approval by a Relevant Credit Authority as determined by size, borrower grade or complexity.

AIB UK Group's Large Exposures Policy sets out a framework for the management of single name credit concentrations. Any exceptions to limits are highlighted and reported to the Audit Committee and are monitored within the Risk Appetite Limits Report.

3.1.2 Measurement of credit risk

One of the objectives of credit risk management is to accurately quantify the level of credit risk to which AIB UK Group is exposed. 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.

The ratings methodology and criteria used in assigning borrowers to grades varies across the models used for the portfolios, but models generally use a combination of statistical analysis (using both financial and non-financial inputs) and expert judgement.

Credit grading and scoring systems facilitate the early identification and management of any deterioration in loan quality. Changes in the objective information are reflected in the credit grade of the borrower with the resultant grade influencing the management of individual loans. Special attention is paid to lower quality performing loans or 'criticised' loans. In AIB UK Group, criticised loans include 'watch', 'vulnerable' and 'impaired' loans. AIB UK Group's criticised loans are subject to more intense assessment and review because of the increased risk associated with them.

The credit classifications are defined as follows:

Good Upper:	Strong credit with no weakness evident.
Good Lower:	Satisfactory credit with weakness evident.
Watch:	The credit is exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cash flows.
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/events 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.

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 in order to ensure that the front line team is best placed to manage asset quality and assist borrowers in line with agreed treatment strategies. The portfolio of good, watch, vulnerable and impaired assets is as follows:

2015					
Neither Past Due Nor Impaired	Mortgages £m	Other Personal £m	Property & Construction £m	Non Property Business £m	Total £m
Good Upper	69	-	10	95	174
Good Lower	1,165	180	1,078	2,644	5,067
Watch	128	15	201	178	522
Vulnerable	133	10	124	87	354
Total Neither Past Due Nor Impaired	1,495	205	1,413	3,004	6,117

2014					
Neither Past Due Nor Impaired	Mortgages £m	Other Personal £m	Property & Construction £m	Non Property Business £m	Total £m
Good Upper	55	-	-	120	175
Good Lower	1,349	194	839	2,099	4,481
Watch	73	33	285	237	628
Vulnerable	197	25	231	137	590
Total Neither Past Due Nor Impaired	1,674	252	1,354	2,594	5,874

2015					
Days Past Due Not Impaired	Mortgages £m	Other Personal £m	Property & Construction £m	Non Property Business £m	Total £m
Good Upper	-	-	-	-	-
Good Lower	8	2	12	31	53
Watch	2	1	12	2	17
Vulnerable	42	3	20	11	76
Total Days Past Due Not Impaired	52	6	44	44	146

2014					
Days Past Due Not Impaired	Mortgages £m	Other Personal £m	Property & Construction £m	Non Property Business £m	Total £m
Good Upper	-	-	-	-	-
Good Lower	2	3	15	7	27
Watch	2	1	10	11	24
Vulnerable	59	4	35	15	113
Total Days Past Due Not Impaired	63	8	60	33	164

Impaired	Mortgages	Other Personal	Property & Construction	Non Property Business	Total
					2015
	£m	£m	£m	£m	£m
Impaired	187	34	150	119	490
Total Impaired	187	34	150	119	490

Impaired	Mortgages	Other Personal	Property & Construction	Non Property Business	Total
					2014
	£m	£m	£m	£m	£m
Impaired	227	37	296	207	767
Total Impaired	227	37	296	207	767

Total Gross Loans and Receivables	Mortgages	Other Personal	Property & Construction	Non Property Business	Total
					2015
	£m	£m	£m	£m	£m
Good Upper	69	-	10	95	174
Good Lower	1,173	182	1,090	2,675	5,120
Watch	130	16	213	180	539
Vulnerable	175	13	144	98	430
Impaired	187	34	150	119	490
Total Gross Loans and Receivables	1,734	245	1,607	3,167	6,753

Total Gross Loans and Receivables	Mortgages	Other Personal	Property & Construction	Non Property Business	Total
					2014
	£m	£m	£m	£m	£m
Good Upper	55	-	-	120	175
Good Lower	1,351	197	854	2,106	4,508
Watch	75	34	295	248	652
Vulnerable	256	29	265	152	702
Impaired	227	37	296	208	768
Total Gross Loans and Receivables	1,964	297	1,710	2,834	6,805

Risk identification and assessment

Credit risk is identified, assessed and measured through the use of credit rating and scoring tools for each borrower or transaction.

In the mortgage and other personal book, which is characterised by a large number of customers with small individual exposures, risk assessment is increasingly informed through statistically-based scoring techniques. In the corporate book, the grading processes utilise a combination of objective information (essentially financial data) and subjective assessments of non-financial risk factors such as management quality and competitive position.

Credit risk principles and policy

Credit risk is managed and controlled within AIB UK Group through an established credit process and within a framework of credit policy together with delegated authorities based on skill and experience. Credit grading, scoring and monitoring systems accommodate the early identification and management of any deterioration in loan quality. The Credit Risk Framework sets out, at a high level, how AIB UK Group identifies, assesses, approves, monitors, reports and controls credit risk. It contains minimum standards that are applied across AIB UK Group to provide a common and consistent approach to the management of credit risk.

The individual credit assessment process of new money requests and subsequent annual reviews (as a minimum) is underpinned by an independent credit review team who visit all front office (relationship/ direct teams) and second line (credit underwriting teams) to ensure quality standards and policies have all been adhered to. A quarterly process is in place to review all criticised loans by the front office and the second line credit underwriting teams.

Credit concentration risk *

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. This is managed by AIB UK Group, through the Large Exposures Policy, and is included in the material risk assessment process within ICAAP and monitored within the Risk Appetite Limits Report.

Credit risk on derivatives *

The credit risk on derivative contracts is the risk that AIB UK Group's counterparty defaults prior to maturity at a time when AIB UK Group has a claim on the counterparty under the contract. AIB UK Group would then have to replace the contract at the current market rate, which may result in a loss. Derivatives are used by AIB UK Group to meet customer needs, to reduce interest rate risk and currency risk. Risks associated with derivatives are managed from a credit, market and operational perspective.

3.1.3 Exposure to and mitigation of credit risk

Credit risk exposure

*Maximum exposure to credit risk **

The table below identifies AIB UK Group's maximum exposure to credit risk, ignoring any collateral that may be held. 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.

	2015 £m	2014 £m
Statement of financial position items		
Balances at central banks [(1)]	2,621	2,846
Items in course of collection	63	62
Derivative financial instruments	92	122
Loans and receivables to banks	2,830	3,460
Loans and receivables to customers	6,472	6,375
Financial investments available for sale	54	31
Prepayments and accrued income	6	4
Other assets	225	44
Maximum exposure to credit risk	**12,363**	**12,944**
Total off balance sheet items	**1,947**	**1,789**

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

Credit risk mitigants

The perceived strength of a borrower's repayment capacity is the primary factor in granting a loan, however, AIB UK Group uses various approaches to help mitigate risks relating to individual credits, including transaction structure, collateral and guarantees. Collateral or guarantees are usually required as a secondary source of repayment in the event of the borrower's default. The main types of collateral for loans and receivables to customers are described below under the section on Collateral. Credit policy and credit management standards are controlled and set centrally by the Credit Risk function.

Collateral *

Collateral or guarantees are usually required as a secondary source of repayment in the event of the borrower's default. Credit risk mitigation includes the requirement to obtain collateral as set out in AIB UK Group's policies and procedures. 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. Collateral held as security for financial assets other than loans and receivables is determined by the nature of the instrument. Debt securities and treasury products are generally unsecured, with the exception of asset backed securities, which are secured by a portfolio of financial assets.

Collateral is not usually held against loans and receivables to financial institutions, including central banks, except where securities are held as part of reverse repurchase or securities borrowing transactions or where a collateral agreement has been entered into under a master netting agreement. In accordance with the AIB UK Group policy, collateral should always be valued by an appropriately qualified source at the time of lending.

Credit risk monitoring *

The primary objective of the credit risk management monitoring and reporting within AIB UK Group is to provide timely, relevant credit risk information to the appropriate management level so as to enable informed management decisions to be taken.

Credit Risk is monitored regularly and reported on a monthly basis to the UKRC. A quarterly credit report is prepared for the BRC. Single name counterparty concentrations are monitored at transaction level and large exposures are reported to the Board half-yearly.

The UKRC reviews a suite of reports on a monthly basis, on advances and concentrations including the key indicators of credit risk: grade movements; provision trends and forecasts; delinquency information, updates on significant credit case developments; and portfolio reports.

The BRC receives quarterly updates on credit risk and key dynamics within the credit portfolios with emphasis on movements in grades, particularly criticised grades. It receives a quarterly presentation, on the advances portfolio, which covers advances growth, credit concentration analysis, impaired loan grade movements, associated provision levels and provision experience in the year-to-date. The Board receives a report highlighting any key exceptions to AIB UK Group's Large Exposures Policy, as well as the developing trends in grade migrations, delinquency trends and provisions outlook. The Board also receives a monthly Risk Appetite Limits Report which monitors a number of Credit Risk metrics.

3.1.4 Loan loss provisioning

Provisioning for impairment *

Whilst provisioning is an ongoing process, provision adequacy is formally reviewed in AIB UK Group on a quarterly basis to determine the overall provision requirement across all credit portfolios. A loan is impaired if there is objective evidence of impairment as a result of one or more impairment triggers that occurred after the initial recognition of the assets (a "loss event") and that loss event has an impact such that the estimated present value of future cash flows is less than the current carrying value of the financial asset or group of assets.

Within its provisioning methodology, AIB UK Group uses two types of provisions: a) specific; and b) Incurred But not Reported ("IBNR"). Specific provisions arise when the recovery of a specific loan or group of loans is significantly in doubt. The amount of the specific provision will reflect the financial position of the borrower and the net realisable value of any security held for the loan or group of loans.

The IBNR provision is recognised for incurred losses that have not yet been observed at the balance sheet date, but which, based on experience, are expected to be identified and reported as impaired after year end. IBNR impairment provisions can only be raised for incurred losses and are not allowed for losses that are expected to happen as a result of likely future events. IBNR provisions are determined by reference to previous loss experience in loan portfolios and to the credit environment extant at the year end.

In considering the level of IBNR that should be held, management use their judgement and experience to overlay adjusted loss rates on certain groups of assets, where management consider there is potentially higher credit risk.

3.1.5 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 unable currently 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 in order 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 2015.

	2015		2014	
	Total loans in forbearance*		Total loans in forbearance*	
	Number	Balance	Number	Balance
Commercial Forbearance		£m		£m
Interest only	20	15	28	22
Reduced payment	5	1	1	1
Payment moratorium	1	-	1	-
Arrears capitalisation	3	1	5	2
Term extension	60	50	76	119
Other	27	11	14	12
Total	**116**	**78**	**125**	**156**

Mortgage Forbearance strategies

It is AIB UK Group's policy where possible to enable customers who are experiencing temporary financial difficulties to stay in their property.

If a mortgage customer notifies AIB UK Group of current or likely future financial difficulties which could lead to arrears/impairment, AIB UK Group reviews the customer's personal circumstances using its Affordability Model and submits any proposal for forbearance to its SLS Retail team.

To be acceptable, any forbearance proposals need to reasonably demonstrate that the mortgage 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;
- a moratorium of capital and interest mortgage payments in exceptional circumstances and 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 being the last forbearance option and where the customer has met a
- a sustained or defined period of normal capital and interest repayments.

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. Declined applications for forbearance will remain in line with existing contracted terms.

In cases where forbearance is declined, but the customer offers a monthly amount less than the contracted capital and interest repayment but equal to or greater than the interest only equivalent monthly payment, this may be considered on a temporary basis; however normal default procedures will continue.

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 SLS Retail team. In exceptional cases only, the period of forbearance may be extended beyond the original agreed forbearance term but such extensions require senior management approval.

Details on the mortgage forbearance exposures are shown on the following page and further information on the portfolio is set out in Note 21:

	2015				2014			
Forbearance –	Total loans in forbearance		Loans > 90 days in arrears and/or impaired		Total loans in forbearance		Loans > 90 days in arrears and/or impaired	
Owner Occupier	Number	Balance	Number	Balance	Number	Balance	Number	Balance
Mortgages		£m		£m		£m		£m
Interest only	33	3	14	1	74	9	23	3
Reduced payment	57	6	18	2	104	10	52	5
Payment moratorium	6	-	-	-	7	1	1	-
Arrears capitalisation	129	8	30	2	122	14	40	9
Term extension	192	16	39	5	142	15	26	5
Total	**417**	**33**	**101**	**10**	**449**	**49**	**142**	**22**

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

	2015				2014			
	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 – Buy to Let Mortgages	Number	Balance £m	Number	Balance £m	Number	Balance £m	Number	Balance £m
Interest only	4	0	-	-	7	1	1	-
Reduced payment	10	1	5	-	13	2	1	-
Payment moratorium	-	-	-	-	-	-	-	-
Arrears capitalisation	10	1	2	-	7	1	1	-
Term extension	20	3	3	1	19	6	1	4
Total	**44**	**5**	**10**	**1**	**46**	**10**	**4**	**4**

3.2 Business risk

Principal risks

AIB UK Group has a programme of continuous change and improvement which includes changes to its core systems, products and channels to create a more agile, customer facing operation which increases the level of risk during the transformation. For example, it has recently completed in Q4 2015 the implementation of its new 'owner managed' business model across GB that included the re-alignment of customers to relationship managers and support teams. The execution of this strategy required managers to embrace the change and build close working relationships with new and existing customers.

Negative public or industry opinion can result from the actual, or perceived, manner in which the Parent Group or AIB UK Group conducts its business activities or from restructuring its operations. This could adversely affect the ability to retain and attract customers, the loss of which could affect its results.

The share capital of the Parent Group is 99.8% owned by the Irish Government. The Parent Group continues to operate without government interference in the day to day management decisions, however there is a risk that a change in government priorities could result in this changing; for example, the 2016 Irish Elections and the possible Initial Public Offering (IPO). AIB UK Group may be impacted by the supervision and oversight of the Parent Group by the European Commission, as a result of the recapitalisation of the Parent Group by the Irish Government

Mitigating actions

AIB UK Group seeks to mitigate these risks through a robust change management and governance function that includes applying tight risk controls, running of pilots and leveraging initiatives used elsewhere in AIB UK Group which had already proven themselves with customers. In the example of the GB owner managed or SME business initiatives, the implementation took place after the conclusion of an extensive and successful pilot where key success criteria set at the start were all achieved.

In May 2014, the EC approved the Parent Group's restructuring plans and in October 2014 the Parent Group met the ECB Comprehensive Assessment tests which confirmed that no additional capital was required at that time.

3.3 People risk

Principal risks

AIB UK Group faces the continued risk of retaining and attracting high quality staff, as competition in the Financial Services market increases and individuals are attracted to better remuneration packages or opportunities to develop faster in other organisations.

Under the terms of the recapitalisation of the Parent Group by the Irish Government, the Parent Group is required to comply with certain pay and compensation arrangements. As a result of these restrictions, AIB UK Group, cannot guarantee that it will be able to attract, retain and remunerate 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 or attract, develop, motivate and retain highly skilled and qualified personnel could have an adverse effect on its results, financial condition and prospects.

The risk of not having robust and appropriate culture and ethics embedded in the organisation could result in legal, fiscal or reputational damage.

Mitigating actions

AIB UK has a strong commitment to investing in training and continued personal development to build capability that supports career progression within the firm.

During 2015 a new performance management initiative was rolled out to all staff that is clearly aligned to the embedded customer centric brand values of the Parent Group which further deepens awareness of the benefits associated with building a strong culture throughout all parts of the business.

Opportunities continue to be taken to identify and secure strong internal or externally-sourced candidates for roles. A programme is in place to continually develop the succession plans for critical roles throughout the organisation and to embed the new culture across the organisation.

Employee engagement is surveyed at least annually through Groupwide staff surveys and team based action plans developed and measured to continually strengthen the working relationship; the results of which have been outlined in the strategic review section.

3.4 Operational risk

Principal risks

AIB UK Group faces operational risks arising from inadequate or failed internal processes or systems, people and property risks and fraud, or from external events such as cyber-risk which continues to become more prevalent and complex. It includes legal risk but excludes financial crime and compliance risk which are covered under the Compliance Risk.

AIB UK Group continues to have significant dependencies on the Parent Group for its shared systems and services which in the event of their failure would have a material impact on the standalone operation of AIB UK Group. Like many banks, the Parent Group makes increasing use of outsourcing arrangements, and ensuring appropriate levels of oversight of outsourced activities and control environments which requires close management.

Mitigating actions

AIB UK Group has in place a comprehensive suite of systems and processes to identify and prevent potential fraudulent activity and protect against cyber threats which are regularly tested and updated.

AIB UK Group maintains a number of processes to check and control activity through Self-Assessment Reviews, business continuity tests, resilience tests and reviews of processes and systems. An independent review and challenge process is managed by Operational Risk.

An overarching Operational Risk Management (ORM) framework is in place, designed to establish an effective and consistent approach across the enterprise. The ORM framework is supported by a comprehensive suite of policies and procedures together with controls to test adherence to them.

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. The Parent Group continues to invest in enhancing its IT governance and IT infrastructure, and as these outsourcing arrangements mature and evolve, suitable adjustments are made to its Recovery and Resolution Plans to take account of such risks. Outsourcing arrangements between AIB UK Group and the Parent Group or 3rd parties are agreed and managed under detailed Service Level Agreements which include regular performance monitoring.

3.5 Conduct and culture risk

Principal risks

Conduct Risk is the risk that inappropriate actions, or inaction, by AIB UK Group can cause unfair outcomes for its customers, and potential market instability. AIB UK Group is a provider of a wide range of financial services predominantly to businesses and personal customers. AIB UK Group therefore faces significant risks of selling products to customers that do not meet their needs or failing to meet customer obligations in respect of product and service terms and conditions or by not responding to their complaints effectively. AIB UK Group could also be exposed to the risk that the Financial Conduct Authority (FCA) does not consider that AIB UK Group is appropriately meeting market and regulatory standards in its interactions with customers.

Culture Risk is the risk that inadvertent or intentional behaviours or actions taken by employees that are not conducive with the overall strategy, culture and values of AIB UK Group will adversely impact business performance or prospects.

Mitigating actions

AIB UK Group maintains a Conduct Strategy and supporting framework designed to support its vision and strategic aim to put the customer at the heart of everything it does. The business transformation programmes are carefully managed via appropriate governance and implementation of a focused customer care strategy.

The AIB UK Group Conduct Risk management strategy is to adopt sound practices in the identification, evaluation, mitigation, monitoring and reporting of Conduct Risks to ensure that they are managed in accordance with the Parent Group's Conduct Risk Appetite. This includes the embedding of a customer centric culture aligned to AIB's Brand Values and Code of Conduct, the promotion of good conduct throughout the organisation, and the operation of a control environment for the measurement and management of Conduct Risk, in accordance with the relevant limits and other requirements set out in the Board Risk Appetite Statement.

AIB UK Group takes compliance and conduct very seriously and seeks to create and maintain a robust risk and compliance culture to satisfy its own standards and values in addition to meeting the FCA regulatory requirements to prevent misconduct. Following industrywide issues regarding the mis-selling of some financial products including Payment Protection Insurance (PPI) or interest-rate hedging products, AIB UK Group has investigated and provided restitution to impacted customers, reviewed its processes and ensured that lessons learnt are fully embraced in how it engages with its customers going forward.

AIB UK Group Product Policy requires products or services to be designed to meet the customers' requirements throughout their lifecycle and whatever delivery channel or market they are offered through. A new product or change to an existing product must be tested and approved via a dedicated governance process prior to launch.

AIB UK Group seeks to promote a strong risk culture throughout the organisation which encourages the prompt identification and escalation of issues and fosters an environment of continuous improvement and 'learning from mistakes'. Risk training is an important part of fostering a sound risk culture. A risk academy is in place which provides access to recommended training and education for risk professionals as well as supporting the ongoing development of risk skills across the organisation. Risk Culture training is also being implemented for all AIB UK Group staff that aligns the behaviours to the strategy, risk appetite, and brand values. A risk culture survey has been undertaken by staff that has provided a baseline position from which actions have been put in place to further embed the strong risk culture across AIB UK Group.

A Group Diversity Inclusion Board has been established to further support greater diversity and inclusivity and so encourage different perspectives.

3.6 Compliance risk

Principal risks

Due to the nature of the financial services industries, the Parent Group and AIB UK Group are subject to complex and demanding financial services laws, regulation and regulatory codes and oversight. Overall responsibility for regulation of the Parent Group changed in 2014 from the Central Bank of Ireland (CBI) to a Joint Supervisory Team (JST) of the European Central Bank (ECB) under the Single Supervisory Mechanism (SSM) covering the wider Eurozone market. In the UK, the Prudential Regulation Authority (PRA) is primarily responsible for the authorisation and prudential supervision of AIB UK Group while the FCA is responsible for conduct of business supervision. The Competition and Markets Authority (CMA) is responsible for strengthening business competition and preventing/reducing anti-competitive activities.

The complexity and intensity of regulatory oversight in the banking system continues to remain very high and could have an adverse impact on how AIB UK Group conducts its business. The sanctions for failing to comply can significantly outweigh the costs of implementation.

There are a number of large regulatory projects that are nearing completion and new ones are coming into force (including IFRS9) that will require transfer into 'business as usual' and embedding into the core business model which generates increased demands on resource (people and IT) including the Senior Managers Regime, the Mortgage Credit Directive and the Future Clearing Model.

Mitigating actions

AIB UK Group operates to a Regulatory Compliance Framework that sets out the responsibilities and accountabilities for the first, second and third lines of defence.

AIB UK Group maintains an independent Compliance function that includes a monitoring role. The Head of Compliance and Financial Crime, reports to the AIB UK Group CRO. The Compliance function provides regular reports to the UKRC and BRC.

Separate projects have been established under senior management control and steering committee structures to manage the various large regulatory projects.

The regulatory landscape is constantly reviewed with detailed reporting to senior management and the Board to ensure appropriate action is being taken in a timely manner.

3.7 Capital adequacy risk

Principal risks

Both the Parent Group and AIB UK Group are required to maintain adequate levels of capital to reflect the risk profile of its business or as a consequence of specific regulatory requirements and are potentially at risk from adverse financial performance. The industry or firms could be called upon by the Regulators (PRA and/or JST) to hold higher levels of capital from time to time in the event of regulatory concern over the adequacy of the current capital held.

AIB UK Group also carries pension risk which may require additional contributions to support its defined benefit scheme which in turn could affect the capital that is required to be held.

There are high levels of regulatory change that will come into force over the next 2 years including removal of barriers to implementation of recovery options and resolution requirements, IFRS9 requirements and macro changes to various capital buffers that might be applied by the Bank of England/PRA, or following decisions by the

SSM or other national regulatory authorities.

Mitigating actions

Close monitoring of actual capital ratios to ensure that they comply with both regulatory and internal capital requirements and are well positioned to meet future requirements.

Stress testing is undertaken to assess under different macro and internal scenarios whether AIB UK Group holds sufficient capital. This is known as the ICAAP and is undertaken on at least an annual basis in addition to other similar tests that may be required from time to time by the Regulators.

AIB UK has put in place a detailed Resolution & Recovery Plan with clear steps and management actions that would be implemented if the trigger events were met.

The Parent Group manages the Pension Risk for AIB UK Group which is the sponsoring firm for the UK defined benefit scheme, and has sought to put in place mechanisms that effectively reduce the impact of pension risk on UK capital requirements.

3.8 Liquidity and funding risk

Principal risks

AIB UK Group's liquidity position is largely supported by a well spread and stable customer deposit base. However, this could be impacted by a sudden and significant withdrawal of customer balances.

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. Funding is the means by which liquidity is generated. All banks are now required to meet liquidity ratio targets.

Mitigating actions

AIB UK Group has a clear funding strategy that aims to remain as close to fully self-funded as is economically viable and mitigates this risk through a formal agreement with the Parent Group which is a net lender to AIB UK Group.

Whilst the Parent Group being a net lender to AIB UK Group is considered to mitigate the risk under normal situations, the heavy reliance on the Parent Group is recognised as a potential weakness in periods of extreme financial stress.

The Parent Group provides a treasury function to AIB UK Group and has access to the wholesale market to raise funds if required.

A Contingency Liquidity Plan is in place to enable AIB UK Group to survive in liquidity crisis situations. The plan takes into account both internal (bank specific) and external (systemic) issues to develop early warning indicators that are monitored by senior management who have a range of management actions that can be put into action depending on the severity of the crisis. These are regularly reviewed, stressed and tested to ensure that they are both understood and remain plausible management actions to take.

AIB UK Group maintains a Recovery and Resolution Plan, in line with PRA requirements, to manage a situation where it is unable to continue to trade normally.

3.9 Market risk

Principal risks

AIB UK Group is exposed to Market Risk as a result of changes in the level of interest rates and the movement in exchange rates between currencies and other financial contracts, including derivatives, fixed rate loans or deposits, which could adversely impact its cash flows and performance.

AIB UK Group is exposed to non-trading interest rate risk due to the sensitivity of its earnings to movements in interest rates. This is referred to as Interest Rate Risk in the Banking Book (IRRBB") and can arise where assets and liabilities and off balance sheet instruments have different re-pricing dates.

Mitigating actions

AIB UK Group mitigates its exposure to Market Risk by transferring positions arising from normal customer business activity to the Parent Group on a very frequent basis thereby ensuring that any residual market risk is very low and in line with the risk appetite.

AIB UK Group identifies and assesses IRRBB by identifying interest rate re-pricing gaps between its assets and liabilities and applying an interest rate shock to ascertain any interest rate sensitivity to interest rate movements within the banking book. The interest gap analyses are undertaken by examining details of interest sensitive assets and liabilities to establish when they will next re-price and then tabulating those which re-price within set time periods ("time buckets"), within which all items re-pricing are grouped together. All on and off balance sheet asset items are allocated to the various time buckets in accordance with their re-pricing date. AIB UK Group then adopts a methodology to calculate the sensitivity to a +/- 200 basis points shift in interest rates, which is in line with regulatory requirements and reporting.

The results of the IRRBB calculations are presented to AIB UK Group's ALCo and included in its capital adequacy assessment.

AIB UK Group transfers all material interest rate risk to the Parent. This transferred banking book interest rate risk is managed as part of the Parent Group's overall interest rate risk position. AIB UK Group manages structural interest rate risk volatility by maintaining a portfolio of instruments with interest rates fixed for several years.

The balance sheet of AIB UK Group is proactively managed through a combination of capital, liquidity and market management actions.

Governance & Oversight

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Governance & Oversight

Chairman	Mr. David Pritchard
Non-Executive Directors	Ms. Margaret Butler Mr. Declan Collier Ms. Pauline Egan Mr. Thomas Foley Mr. Stephen Kingon Sir Bruce Robinson Mr. Peter Spratt Mr. Simon Turner
Executive Directors	Mr. Brendan O'Connor Mr. Hugh O'Donnell Mr. Gerard O'Keeffe
Company Secretary	Ms. Tiana Peck
Registered Office	92 Ann Street, Belfast, BT1 3HH
Bankers	Allied Irish Banks plc AIB Bankcentre, Ballsbridge, Dublin 4, Republic of Ireland
Independent Auditor	Deloitte LLP London

Report of the Directors

The Directors of AIB UK Group present the annual report and the audited financial statements of the Company and Group for the year to 31 December 2015.

Results

AIB UK Group's after taxation loss for the year ended 31 December 2015 attributable to the equity holders of the Parent amounted to £87m (2014: loss of £73m) and was arrived at as shown in the consolidated income statement on page 55. An analysis of performance is detailed in the Strategic Report on pages 4 to 15.

Dividends

The Directors did not pay a dividend during the years ended 31 December 2015 or 31 December 2014.

Directors

The composition of the Board, and the names of the Directors as at 31 December 2015, is set out on page 41.

The following Board changes occurred, with effect from the dates shown:

- Peter Spratt was appointed Non-Executive Director on 3 March 2015;
- Thomas Foley was appointed Non-Executive Director on 23 April 2015;
- Pauline Egan was appointed Non-Executive Director on 7 May 2015;
- Stephen Reid resigned as Managing Director on 19 October 2015; and
- Brendan O'Connor was appointed Managing Director on 19 October 2015.
- David Pritchard resigned as Chairman and from the Board on 1 March 2016; and
- Peter Spratt was appointed Chairman on 1 March 2016.

No contracts of significance in relation to the business of AIB UK or its subsidiaries existed at any time during the year or previous year between AIB UK Group and any Director.

Corporate governance statement

In preparing the financial statements, the Directors have regard to the revised UK Corporate Governance Code published by the UK Financial Reporting Council and effective for listed companies from 1 October 2014. AIB UK Group is not obliged to comply with the provisions of the Code, however the Directors seek to adopt the principles of the Code, in so far as it considers them appropriate to a company of this size and nature, to demonstrate the highest standard of Corporate Governance best practice which is expected from regulated firms within the UK Financial Services industry.

The UK Corporate Governance Code require Boards to consider the processes they have in place for preparing the annual report to ensure that these result in a fair, balanced and understandable presentation of the business. In compliance with the Code, the Directors consider the 2015 financial statements to be fair, balanced and understandable, and provide the necessary information to enable shareholders to assess AIB UK Group's performance, business model and strategy.

Going concern

The Directors have considered the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 2015 on pages 55 to 60 and have concluded that it is appropriate to prepare the financial statements on a going concern basis. The basis for this conclusion are set out in the Going Concern note 2.2 on page 63.

Viability statement

The Directors have assessed the viability of AIB UK Group, taking into account its current position and the principal risks facing AIB UK Group over the next three years to 31 December 2018.

The Directors concluded that three years was an appropriate period for the annual assessment given that this is the key period of focus within AIB UK Group's strategic planning process. The strategic plan is considered annually and is subject to stress testing to reflect the potential impact of plausible yet severe scenarios which take account of the principal risks and uncertainties facing AIB UK Group.

The assessment considered the current financial performance, funding & liquidity management and capital management of AIB UK Group, as set out in the Strategic Report on pages 13 to 14, and the governance and oversight through which AIB UK Group manages and seeks where possible to mitigate risk as described on pages 40 to 50. A robust assessment of the principal risks facing AIB UK Group, including those that would threaten the business operations, governance and internal control systems was also undertaken and considered, the details of which are include on pages 16 to 39

The Directors believe taking into account AIB UK Group's current position, and subject to the identified principal risks, AIB UK Group will be able to continue in operation and meet its liabilities as they fall due over the three year period of assessment.

Internal controls

Board Governance and Controls

The Board of Directors acknowledges responsibility for AIB UK Group's system of internal control and for reviewing its effectiveness. A sound system of internal control contributes to safeguarding AIB UK Group's assets. However, such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and provides only reasonable and not absolute assurance against material mis-statement or loss.

Within AIB UK Group, there is a comprehensive system of internal control that includes:

- a clearly defined management structure, with appropriate apportionment of responsibility, authority and accountability;
- annual planning, budgeting, business review and financial reporting, with clearly defined 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 UK Senior Management Team (SMT) and to the UK Audit Committee on various aspects of control, through the Risk Management, Finance, Internal Audit and Compliance functions. The internal control framework is also considered, as appropriate, by the Board Risk Committee;
- the implementation of a self-assessment risk identification process across all business units and a hierarchical sign-off process to certify compliance with internal control procedures; and
- adherence to laws and regulations, including regulations and guidelines set out by the regulatory authorities, the PRA and Financial Conduct Authority (FCA).

The Board receives reports from management that provide an assessment of the significant risks, including credit and operational risks and the effectiveness of the system of internal controls in managing these risks. It also receives independent reports from AIB plc's Group Internal Audit function on the effectiveness of internal controls. It seeks confirmation from management that any significant control failings or weaknesses identified by the Parent Group Internal Audit or other reviews have been remedied.

Code of Conduct

AIB UK Group has adopted a Code of Conduct in relation to business ethics that applies to all employees. The Code of Conduct sets out the key standards for behaviour and conduct that apply to all employees, and includes particular requirements regarding responsibilities of management for ensuring that business and support activities are carried out to the highest standards of behaviour. The application of the Code of Conduct is underpinned by policies, practices and training which are designed to ensure that the code is understood and that all employees act in accordance with it. The Code is reviewed annually.

The Code of Conduct is supported by AIB UK Group's "Speak Up" policy which encourages employees to raise any concerns of wrong-doing through a number of channels, both internal and external, including a confidential external help-line. Employees are assured that if they raise a concern in good faith AIB UK Group will not tolerate and victimisation or unfair treatment of the employee as a result.

Supervision and regulation

Supervision

AIB UK Group is a company 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). It carries 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 FSMA is the principal piece of legislation governing the establishment, supervision and regulation of financial services and markets in the United Kingdom.

The PRA is responsible for prudential regulation, including rules relating to capital adequacy, limits on large exposures and liquidity. The FCA is responsible for conduct of business regulation, market conduct (including market abuse), consumer credit, financial crime and enhancing competition. AIB UK Group has the statutory power to issue bank notes as local currency in Northern Ireland (it does this under the name 'First Trust Bank'). In this connection, it is 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.

AIB UK Group subscribes 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. First Trust Financial Services Ltd (a company incorporated in Northern Ireland) is authorised by the FCA to advise on and arrange certain investments, including pensions, life policies, securities and non-investment insurance contracts.

The level of regulatory risk remained high in 2015 as the regulatory landscape for the banking sector continued to evolve with a strong focus on supporting the stability of the banking system and ensuring appropriate resolution and recovery mechanisms are in place post the global financial crisis.

AIB UK Group is committed to proactively identifying regulatory and compliance obligations and ensuring timely implementation of regulatory change. The level of regulatory change is expected to remain high in 2016.

Legislative Changes

AIB UK Group is subject to most of the significant changes to European regulations that are currently being developed, either directly or through the Parent Group.

The development of the European Union banking union framework progressed in 2015 with the implementation of the EU Single Resolution Mechanism ("SRM") which became fully operational on 1 January 2016, and the implementation and transposition of the Bank Recovery and Resolution Directive ("BRRD") during 2015. The full resolution powers of the Single Resolution Board ("SRB") also apply from 1 January 2016.

The BRRD is intended to enable regulatory authorities to resolve failing banks at a national level to lower the risk of impacting the broader financial system, while sharing the costs of resolution with bank shareholders and creditors. The BRRD includes explicit provisions for the 'bail in' of senior creditors where necessary.

AIB UK Group updated its recovery plan during 2015, and is currently working with the Parent Group on the development of a single Groupwide recovery plan.

AIB UK Group is also subject to the requirements of the Deposit Guarantee Scheme Directive ("DGSD"), the Capital Requirements regulations and directive ("CRD IV") and the European Markets Infrastructure Regulation ("EMIR") which is designed to increase the stability and transparency of over-the-counter derivatives markets.

AIB UK Group is also subject to the requirements of the recast Markets in Financial Instruments Directive ("MIFID II") which covers investor protection, transparency rules and organisational requirements which must be implemented by Quarter 1 2017. This will be a key focus for 2016.

At a national level, a key focus for the PRA and the FCA in 2015 has been to strengthen the framework by which they can hold senior management in banks accountable for their decisions and actions. Final rules have been published for the Senior Managers and Certification Regime which comes in to force in March 2016. The new regime involves new conduct requirements that will apply to certain senior management, clearer accountability and a requirement to certify a wider number of staff to carry out their roles.

The FCA continued to drive its "principles based" regulation, with an on-going focus on how banks conduct business, particularly with regard to the delivery of fair outcomes for customers and orderly transparent markets. There have been on-going regulatory reviews to assess the conduct culture within UK banks, and a drive to promote effective competition in the interest of consumers.

Conduct Risk

AIB UK Group is exposed to many forms of conduct risks, 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.

Corporate governance practices

Board responsibilities

The AIB UK Group Board is responsible for corporate governance encompassing leadership, direction and control of AIB UK and its subsidiaries and is accountable to shareholders for financial performance. At a high level this includes:

- determining AIB UK Group's strategic objectives and policies;
- appointing the Chairman, Managing Director and Senior Management, and addressing succession planning;
- monitoring progress towards achievement of AIB UK Group's objectives and compliance with its policies;
- approving annual operating and capital budgets, major acquisitions and disposals, and risk management policies and limits; and
- monitoring and reviewing financial performance, risk management activities and controls.

The Board of AIB UK Group meets on a monthly basis to review the performance of the business and oversee the implementation of its strategy. Additional out-of-course Board meetings or briefings are held on specific issues when required. Sub-committees of the Board, comprising of Non-Executive Directors, also meet to deal with specific issues as required in the absence of the Executive Directors in accordance with good governance standards.

The Board has delegated certain responsibilities to the Board Audit Committee and the Board Risk Committee, both of which review certain matters on behalf of the Board and recommends approval, as appropriate, to the Board. A total of 14 Board meetings were held during 2015 (2014: 14).

While the Board has ultimate responsibility for all risk-taking activity within AIB UK Group, it has delegated some responsibilities to a number of key Board and Senior Management committees.

The Board receives regular updates on performance and key business issues from executive management. On a monthly basis the Finance Director presents the financial results for the period to the Board. The results include a review of performance, against plan and prior year for both the period and the year to date, and other metrics of performance including income, costs, performance efficiency, movement in loans and deposits, balance sheet and margin trends, non-earning loans, and capital and liquidity ratios.

Monthly business updates are provided to the Board by executive management. These include an assessment of performance, customer considerations, and comments on competitive and market developments and updates on operational issues in the network. Executive management provide the Board with comprehensive reports on regulatory and compliance issues including the level of customer complaints, interaction with the Regulator and other compliance issues. The key risks facing the business are dealt with in the Risk Management section.

The Board is assisted in the discharge of its duties by a number of Board Committees, whose purpose it is to consider, in greater depth than would be practicable at Board meetings, matters for which the Board retains responsibility. The composition of such Committees is reviewed annually by the Board. A description of these Committees, each of which operates under Terms of Reference approved by the Board, and their membership, is given later in this section.

The minutes of all meetings of the Audit Committee and Board Risk Committee are formally noted by the Board. The Chairman of each Board Committee also provides an update to the Board at the Board meeting which follows that of the Committee. This provides an opportunity for Directors who are not members of those Committees to seek additional information or to comment on issues being addressed at Committee level. The Board Committees are entitled to take independent professional advice, at AIB UK Group's expense, where deemed necessary or desirable by the Committee Members.

The Board has established four Board Committees comprising Non-Executive Directors to assist it with the discharge of its duties. The composition of each Board Committees for the year-ending 31 December 2015 and the number of times they have met during the year are shown below.

Board Audit Committee

Mr. S. Kingon Chairman

Ms. M. Butler

Ms. P. Egan (From 7 May 2015)

Sir B. Robinson

Mr. S. Turner

Number of meetings during 2015: 11 (2014: 7)

Audit Committee responsibilities

The Audit Committee comprises five Non-Executive Directors whom the Board has determined have the collective skills and relevant financial experience to enable the Committee to discharge its responsibilities. The Audit Committee has oversight responsibility for:

- the quality and integrity of AIB UK Group's accounting policies, financial statements and disclosure practices;
- compliance with relevant laws, regulations, codes of conduct and "conduct of business" rules;
- the independence and performance of the External Auditor (the Auditor) and the Group Internal Auditor;
- 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 AIB UK Group's position and prospects, and
- reviewing and approving AIB UK Group's Recovery and Resolution Plan

These responsibilities are discharged through its meetings and with receipt of reports from management, the Auditor, the Finance Director, the Group Internal Auditor, the Chief Risk Officer and the Head of Compliance.

The following attend the Committee's meetings by invitation: the Auditor, the Managing Director, the Finance Director, the Chief Risk Officer, the Group Internal Auditor, and the Head of Compliance. Other senior executives also attend by invitation where appropriate.

During 2015, the Audit Committee met on 11 occasions. The following, whilst not intended to be exhaustive, is a summary of the activities undertaken by the Committee in the discharge of its responsibilities. The Committee:

- reviewed AIB UK Group's annual financial statements prior to approval by the Board, including: AIB UK Group's accounting policies and practices; reports on compliance; effectiveness of internal controls; and the findings, conclusions and recommendations of the external Auditor;
- in the context of reviewing the financial statements, the Committee engaged with management in respect of accounting matters, the most significant of which related to loan impairment provisions, deferred taxation, retirement benefit obligations, a review of regulatory mis-selling provisions and going concern considerations and, 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);
- provided advice to the Board in respect of the annual financial statements, confirming that the Committee is satisfied that the annual report and accounts for the year ended 31 December 2015, taken as a whole, was fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's performance, business model and strategy;
- reviewed the scope of the independent audit, and the findings, conclusions and recommendations of the Auditor;
- satisfied itself through regular reports from the Group Internal Auditor, the Finance Director, the Chief Risk Officer, the external Auditor and the Head of Compliance that the system of internal controls over financial reporting was effective;
- received regular updates from Group Internal Audit, including monthly reports detailing Internal Audit reports issued during the previous month, control issues identified and related remediation actions, and rolling quarterly updates on related progress;
- received rolling updates from the Chief Risk Officer and the Head of Compliance to satisfy itself that AIB UK Group 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; and
- held formal confidential consultations during the year separately with the external Auditor and the Group Internal Auditor, in each case with only Non-Executive Directors present.

Board Risk Committee

Ms. M. Butler	Chairman
Mr. D. Collier	
Mr. D. Pritchard	
Mr. P. Spratt	(From 3 March 2015)

Number of meetings during 2015: 8 (2014: 6)

Board Risk Committee responsibilities

AIB UK Group's Board Risk Committee is responsible for assisting the Board in fulfilling its oversight responsibilities in the development, implementation and maintenance of AIB UK Group's overall risk culture, risk management framework and its risk appetite, strategy, principles and policies. This is to ensure that they are consistent with the strategy, regulatory requirements, corporate governance principles and industry best practice. The Board's Risk Committee responsibilities include assessing the matters set out below, and further details on AIB UK Group'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 responsibilities of the Committee are discharged through its meetings and receiving, commissioning and considering reports from the Chief Risk Officer, the Head of Credit, the Finance Director, the Group Internal Auditor and other members of management.

The following regularly attend the Committee's meetings by invitation: the Auditor, the Managing Director, the Finance Director, the Chief Risk Officer, and the Group Internal Auditor. Other senior executives also attend, where appropriate.

During 2015 the Committee met on 8 occasions. 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 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; and

- capital planning, including consideration of AIB UK Group ICAAP reports and related stress test scenarios;
- reports from management on a number of specific areas in order to ensure that appropriate management oversight and control was evident, 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; and

    (e) regulatory developments,

- AIB UK Group's Risk Management infrastructure including actions taken to strengthen its risk management governance, people skills and system capabilities.

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 an annual basis with the Chief Risk Officer.

Remuneration Committee

Mr. D. Collier	Chairman
Ms. P. Egan	(From 7 May 2015)
Mr. T. Foley	(From 23 April 2015)
Mr. S. Kingon	
Mr. S. Turner	

Number of meetings during 2015: 5 (2014: 4)

The AIB UK Group Remuneration Committee has been established to consider, agree and recommend to the Board an overall remuneration policy and philosophy for AIB UK Group that is aligned with its long-term business strategy, objectives, risk appetite that recognises the interests of its relevant stakeholders. No Directors are involved in deciding their own remuneration. The Committee met on 5 occasions in 2015.

During 2015, the Remuneration Committee, in conjunction with the Parent Group Remuneration Committee, have considered and challenged the over-arching principles and parameters of UK relevant remuneration matters. The Committee have also actively been involved in overseeing the wider people and culture agenda for AIB UK Group. The Committee considered and approved the remuneration arrangements of the UK Chairman, the UK Executive Directors and other UK based Senior Executives. Notable activities for the year include exercising oversight of people risk considerations and reviewing reports relating to employee engagement. Advisers to the Remuneration Committee during 2015 were Towers Watson. Towers Watson was appointed by the Parent Group during 2015 following a market review. The Committee is satisfied that the advice provided by Towers Watson to the Committee is independent.

Nomination & Corporate Governance Committee

Mr. D. Pritchard	Chairman
Ms. M. Butler	
Sir B. Robinson	
Mr. P. Spratt	(From 3 March 2015)

Number of meetings during 2015: 24 (2014: 8)

The AIB UK Group Nominations and Corporate Governance Committee is responsible for considering, agreeing and recommending to the Board all new appointments of both executive and Non-Executive Directors. The Committee met on 24 occasions during 2015.

During 2015, the Committee undertook a larger volume of activity compared with last year. In addition to its key responsibility of ensuring that AIB UK Group has an effective Board and Board Committees in place, the Committee recruited three new Non-Executive Directors for appointment to the UK Board, recruited the new Managing Director and commenced the search for a new UK Chairman (which has now concluded successfully). In terms of Board Committee composition, membership has been refreshed and succession planning to the current Board Committee Chairmen was considered to be adequate. 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. The Committee has also fulfilled its duty to ensure that the UK Board's governance arrangements are reviewed and that appropriate recommendations have been made to the UK Board to ensure that they are consistent with best practice corporate governance standards.

Staff Engagement

AIB UK Group has a dedicated internal communications function focused on ensuring employees have the information and support they need to contribute to achieving the bank's vision and strategy. AIB UK Group has established communication channels in place: in addition to email, the company intranet and newsfeed are consistently used to share news and updates from across the business (as well as facilitate two-way conversation and peer-to-peer interactions). We also hold regular in-person forums such as Roadshows and Workshops where people from across the AIB UK Group are invited to hear from leaders and ask questions to support their understanding of the role they play in the business.

AIB UK Group's internal communications on financial and economic factors are transparent and delivers specific communications (whether written, in person, or webcast/ telecom) around company financial performance and results. Through these channels AIB UK Group also addresses topical, macroeconomic events and how they might impact the performance of the company.

AIB UK Group has constructive working relations with its employee representative unions – who are consulted regularly on a wide range of matters affecting their current and future interests. An initiative is currently underway Irish Bank Officials Association ("IBOA") the largest union grouping to enhance working relationships between management and union representatives at all levels across the organisation by developing more effective processes of local engagement.

Applications for employment by disabled persons are always given full consideration by AIB UK Group, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the 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 employees. In addition, we have a very comprehensive and robust support programme for staff who are absent from work due to illness/disability, including the availability of both remote working and flexible hours, and generous sick pay arrangements including income protection.

Directors' indemnities

As is normal practice, AIB UK Group has made qualifying third party indemnity provisions for the benefit of its Directors, which were made during the year and remain in force at the date of this report.

Auditors

Deloitte LLP, Chartered Accountants and Statutory Auditors, were appointed as auditors to AIB UK Group and the Parent Group on 5 July 2013. Pursuant to Section 487 of the Companies Act 2006, the auditor Deloitte LLP will continue in office.

Each of the persons who is a director at the date of approval of this annual report confirms that:

- So far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- The director has taken all the steps that he/she ought to have taken as a director in order to make himself/ herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

By Order of the Board

B O'Connor
Director
1 March 2016

Financial Statements

Directors' responsibility statement

The Directors are responsible for preparing the Directors' Report and the group and parent company 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 they have elected to prepare both the group and the parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law.

Under company law the Directors must not approve the financial statements 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 their profit or loss for that period. In preparing each of the group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

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 its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

By Order of the Board

B O'Connor
Director
1 March 2016

Financial Statements

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

We have audited the financial statements of AIB Group (UK) plc for the year ended 31 December 2015 which comprise the Group and Parent Company Income Statements, the Group and Parent Company Statements of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material mis-statements or inconsistencies we consider the implications for our report.

Opinion on financial statements

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 2015 and of the group's loss for the year then ended;
- have been properly prepared in accordance with IFRS's as adopted by the European Union;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

- 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;

- 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 company and its environment obtained in the course of the audit, we have not identified any material mis-statements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or

- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

Mark Rhys FCA
(Senior statutory auditor)
1 March 2016

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

Consolidated Income Statement
for the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Interest and similar income	4	289	286
Interest expense and similar charges	5	(81)	(93)
Net interest income		**208**	**193**
Fee and commission income	6	50	49
Fee and commission expense	6	(5)	(5)
Net trading gain/ (loss)	7	15	(6)
Other operating (expense)/ income	8	(14)	4
Other income		**46**	**42**
Total operating income		**254**	**235**
Administrative expenses	9	(151)	(152)
Depreciation of property, plant and equipment	26	(1)	(2)
Impairment of property and equipment		-	(2)
Total operating expenses		**(152)**	**(156)**
Operating profit before provisions		**102**	**79**
Provision for liabilities and commitments	33	6	(38)
Provision for impairment of loans and receivables	20	3	(31)
Total provisions		**9**	**(69)**
Operating profit		**111**	**10**
Associated undertakings	10	-	2
Profit on disposal of property	11	-	2
Profit before taxation from continuing activities		**111**	**14**
Taxation on ordinary activities	14	(198)	(87)
Loss for the year		**(87)**	**(73)**
Attributable to:			
Equity holders of the parent		(87)	(73)

All results are derived from continuing operations.

The notes on pages 61 to 134 form an integral part of these financial statements.

Statements of Comprehensive Income
for the year ended 31 December 2015

	Notes	AIB UK Group 2015 £m	AIB UK Group 2014 £m	AIB UK 2015 £m	AIB UK 2014 £m
Loss for the year		**(87)**	**(73)**	**(89)**	**(74)**
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	12	(4)	122	(4)	122
Total items that will not be reclassified to profit or loss		**(4)**	**122**	**(4)**	**122**
Items that may be reclassified subsequently to profit or loss:					
Net change in cash flow hedges, net of tax	35	(5)	-	(5)	-
Net change in fair value of available for sale securities, net of tax	35	16	(3)	16	(2)
Exchange translation adjustments		-	-	-	-
Total items that may be reclassified subsequently to profit or loss		**11**	**(3)**	**11**	**(2)**
Other comprehensive income for the year, net of tax		**7**	**119**	**7**	**120**
Total comprehensive income for the year		**(80)**	**46**	**(82)**	**46**
Attributable to:					
Equity holders of the parent		(80)	46	(82)	46

The notes on pages 61 to 134 form an integral part of these financial statements.

Financial Statements

Statements of Financial Position

for the year ended 31 December 2015

		AIB UK Group		AIB UK	
		2015	2014	2015	2014
	Notes	£m	£m	£m	£m
Assets					
Cash and balances at central banks		2,647	2,877	2,647	2,877
Items in course of collection		63	62	63	62
Derivative financial instruments	17	92	122	91	122
Loans and receivables to banks	18	2,830	3,460	2,811	3,442
Loans and receivables to customers	19	6,472	6,375	6,472	6,375
Financial investments available for sale	23	54	31	54	31
Current taxation	14	-	3	-	2
Prepayments and accrued income		6	4	6	4
Other assets	24	225	44	224	44
Retirement benefit assets	12	424	392	424	392
Property, plant and equipment	26	14	11	12	9
Shares in group undertakings	25	-	-	1	1
Intangible assets	27	3	3	3	3
Deferred taxation	28	87	279	87	278
Total assets		**12,917**	**13,663**	**12,895**	**13,642**
Liabilities					
Derivative financial instruments	17	110	141	110	141
Deposits by banks	29	2,281	2,854	2,272	2,846
Customer accounts	30	8,327	8,295	8,434	8,442
Debt securities in issue	31	99	184	-	45
Accruals and deferred income		24	15	24	15
Other liabilities	32	383	404	381	403
Provision for liabilities and commitments	33	42	76	33	63
Current taxation	14	3	-	2	-
Deferred taxation	28	34	-	34	-
Total liabilities		**11,303**	**11,969**	**11,290**	**11,955**
Shareholders' equity					
Share capital	34	2,384	2,384	2,384	2,384
Reserves		12	1	12	1
Retained earnings		(782)	(691)	(791)	(698)
Total shareholders' equity		**1,614**	**1,694**	**1,605**	**1,687**
Total liabilities and shareholders' equity		**12,917**	**13,663**	**12,895**	**13,642**

The notes on pages 61 to 134 form an integral part of these financial statements.
Approved by the directors on 1 March 2016.

H O'Donnell
Director

T Peck
Secretary

Company registration number: NI018800

Statements of Cash Flows
for the year ended 31 December 2015

	Notes	AIB UK Group 2015 £m	AIB UK Group 2014 £m	AIB UK 2015 £m	AIB UK 2014 £m
Cash flows from operating activities					
Profit before taxation		111	14	107	15
Adjustments for:					
Provision for impairment of loans and receivables	20	(3)	31	(3)	31
Profit on disposal of financial assets		-	(2)	-	(3)
Provision for liabilities and commitments	33	(6)	38	(6)	26
Depreciation, amortisation and impairment		1	4	1	4
Increase/ (decrease) in accruals and deferred income		7	(8)	7	(2)
(Profit)/ loss on disposal/transfer of loans and receivables		18	-	18	-
Net cash inflow from operating activities		**128**	**77**	**124**	**71**
Net decrease in loans and receivables to banks	18	739	1,583	740	1,581
Net (increase)/ decrease in loans and receivables to customers	19	(296)	285	(296)	286
Net decrease in deposits by banks	29	(584)	(1,041)	(585)	(1,041)
Net (decrease)/ increase in customer accounts	30	32	(56)	(8)	(110)
Net (decrease)/ increase in debt securities in issue	31	(40)	(59)	-	-
Net (decrease)/ increase in derivative financial instruments	17	(1)	16	(1)	16
Net decrease in items in course of collection		(1)	10	(1)	10
Net decrease in notes in circulation	32	(17)	(18)	(17)	(18)
Net decrease/ (increase) in other assets		(29)	5	(28)	5
Net increase/ (decrease) in other liabilities		(12)	(93)	(8)	(90)
Net cash (outflow)/ inflow from operating assets and liabilities		**(209)**	**632**	**(204)**	**639**
Net cash (outflow)/ inflow from operating activities before taxation		(81)	709	(80)	710
Taxation (paid) / received		(2)	-	(3)	1
Net cash inflow / (outflow) from operating activities		**(83)**	**709**	**(83)**	**711**
Investing activities (note a)		**(4)**	**2**	**(4)**	**-**
Increase/ (decrease) in cash and cash equivalents		**(87)**	**711**	**(87)**	**711**
Opening cash and cash equivalents		3,681	2,970	3,681	2,970
Closing cash and cash equivalents	40	**3,594**	**3,681**	**3,594**	**3,681**

The notes on pages 61 to 134 form an integral part of these financial statements.

Financial Statements

Statements of Cash Flows
for the year ended 31 December 2015

		AIB UK Group		AIB UK	
		2015	2014	2015	2014
	Notes	£m	£m	£m	£m
(a) Investing activities					
Purchase of financial investments available for sale		-	2	-	1
Investment in subsidiary undertakings		-	-	-	-
Sales and maturity of financial investments available for sale		-	2	-	2
Additions to property and equipment		(4)	(1)	(4)	(2)
Proceeds from disposals of property and equipment		-	1	-	-
Additions to intangible assets		-	(2)	-	(1)
Cash flows from investing activities		**(4)**	**2**	**(4)**	**-**

Statements of Changes in Equity
for the year ended 31 December 2015

AIB UK Group	Notes	Share capital £m	Capital reserve £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 2015		2,384	1	2	-	(2)	(691)	1,694
Loss for the year		-	-	-	-	-	(87)	(87)
Other comprehensive income, net of tax	35	-	-	-	(5)	16	(4)	7
At 31 December 2015		**2,384**	**1**	**2**	**(5)**	**14**	**(782)**	**1,614**
At 1 January 2014		2,384	1	2	-	1	(740)	1,648
Loss for the year		-	-	-	-	-	(73)	(73)
Other comprehensive income, net of tax	35	-	-	-	-	(3)	122	119
At 31 December 2014		**2,384**	**1**	**2**	**-**	**(2)**	**(691)**	**1,694**

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 2015		2,384	2	-	(1)	(698)	1,687
Loss for the year		-	-	-	-	(89)	(89)
Other comprehensive income, net of tax	35	-	-	(5)	16	(4)	7
At 31 December 2015		**2,384**	**2**	**(5)**	**15**	**(791)**	**1,605**
At 1 January 2014		2,384	2	-	1	(746)	1,641
Loss for the year		-	-	-	-	(74)	(74)
Other comprehensive income, net of tax	35	-	-	-	(2)	122	120
At 31 December 2014		**2,384**	**2**	**-**	**(1)**	**(698)**	**1,687**

The notes on pages 61 to 134 form an integral part of these financial statements.

Notes to the Financial Statements

1. Reporting entity

AIB UK is domiciled in the United Kingdom and its registered office is 92 Ann Street, Belfast, BT1 3HH. The consolidated financial statements of AIB UK as at and for the year ended 31 December 2015 include AIB UK 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 1 March 2016.

Reference made to "AIB plc" or the "Parent", will relate to Allied Irish Banks, p.l.c., AIB UK Group's ultimate parent company, which is a company registered in the Republic of Ireland. The address of its Group Headquarters and Registered Office is as follows: AIB Bankcentre, Ballsbridge, Dublin 4, Republic of Ireland. Telephone +353(0) 16600311. Registered number 24173. Reference made 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.

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 IFRSs as issued by the International Accounting Standards Board (IASB) and IFRSs as adopted by the EU and applicable for the year ended 31 December 2015. 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, as set out in the Risk Management section of these Financial Statements. The relevant information on those pages is identified as forming an integral part of the audited financial statements.

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 and impairment of other financial instruments; the recoverability of deferred tax; determination of the fair value of certain financial assets and financial liabilities; regulatory mis-selling provisions; retirement benefit obligations; and provisions for liabilities and commitments.

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 84 to 87.

Going Concern

AIB UK Group is dependent on the support, if required, of the Parent for its ability to meet its UK capital requirements and ultimately for its funding requirements. Throughout 2015 AIB UK Group received full support from AIB plc in meeting all its capital and liquidity commitments.

The financial statements for the year ended 31 December 2015 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 2015 to 2017 approved by the Board in January 2015, the Parent's restructuring plan approved by the European Commission in May 2014, 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 stabilisation of property prices in Northern Ireland. The Directors have also considered the outlook for the Irish and Eurozone economies, and the factors and uncertainties impacting their performance.

The Directors have also considered the principal risks and uncertainties which could materially affect AIB UK Group's future business performance and profitability and which are outlined on pages 16 to 39.

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 pages 13 to 14.

AIB UK Group's funding and liquidity profile is outlined on page 14. In relation to liquidity and funding, the Directors are also satisfied, based on the Parent's position in the Irish market place, 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.

Conclusion

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 2015, AIB UK Group adopted amendments to standards and interpretations which had an insignificant impact on these annual financial statements.

2.3 Basis of consolidation

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

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

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 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.

AIB UK Group provides a number of retirement benefit schemes including defined benefit and defined contribution as well as a hybrid scheme that has both defined benefit and defined contribution elements. In addition, AIB UK Group contributes, according to local law in the various countries in which it operates, to governmental and other schemes which have the characteristics of defined contribution schemes. The majority of the defined benefit schemes are funded.

Full actuarial valuations of defined benefit schemes are undertaken every three years and are updated to reflect current conditions at each year-end reporting date. Scheme assets are measured at fair value determined by using current bid prices. Scheme liabilities are measured on an actuarial basis by estimating the amount of future benefit that employees have earned for their service in current and prior periods and discounting that benefit at the market yield on a high quality corporate bond of equivalent term and currency to the liability. The calculation is performed by a qualified actuary using the projected unit credit method. The difference between the fair value of the scheme assets and the present value of the defined benefit obligation at the year-end reporting date is recognised in the statement of financial position. Schemes in surplus are shown as assets and schemes in deficit, together with unfunded schemes, are shown as liabilities. 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 defined benefit pension schemes to employees, comprising the service cost and net interest on the net defined benefit liability (asset), calculated by applying the discount rate to the net defined benefit liability (asset), 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 are recognised in other comprehensive income. Amounts recognised in other comprehensive income in relation to remeasurements of the net defined benefit liability (asset) will not be reclassified to profit or loss in a subsequent period.

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

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

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

Short-term employee benefits

Short-term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period during which employees have provided services. Bonuses are recognised to the extent that AIB UK Group has a legal or constructive obligation to its employees that can be measured reliably. The cost of providing subsidised 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 that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income. Income tax relating to items in equity is recognised directly in equity.

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

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

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

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

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future. In addition, 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 in each jurisdiction, 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 changes in fair value are recognised directly in the income statement within net trading income.

Preference shares which carry a mandatory coupon are classified as financial liabilities. The dividends on these preference shares are recognised in the income statement as interest expense using the effective interest method.

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 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 offer 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 offer 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 each valuation model to ensure that it reflects current market conditions. The calculation of fair value for any financial instrument may require adjustment of the quoted price or the valuation technique output to reflect the cost of credit risk and the liquidity of the market, if market participants would include one, where these are not embedded in underlying valuation techniques or prices used.

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

Transfers between levels of the fair value hierarchy

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 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 is 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 both as a result of activity generated by customers and from proprietary trading with a view to generating incremental income. Non-trading derivative transactions comprise transactions held for hedging purposes as part of 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.

Embedded derivatives

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract, and the hybrid contract itself is not carried at fair value through profit or loss, the embedded derivative is treated as a separate derivative, and reported at fair value with gains and losses being recognised in the income statement.

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 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 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.

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 the Risk Management section on pages 31 to 34. 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 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 cashflows 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 six 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 six 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 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 group of assets containing a non-current asset (a disposal group) is classified as held for sale if 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.

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

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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 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. The provision is calculated using market rates of interest to reflect the long-term nature of the cash flows. 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 Group.

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

Share capital

Share capital represents funds raised by issuing shares in return for cash or other consideration. Share capital comprises ordinary shares, deferred shares and preference 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 Group's shareholders, or in the case of the interim dividend when it has been approved for payment by the Board of Directors.

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 deficit within the defined benefit pension schemes and other appropriate adjustments.

Foreign currency translation reserves

The foreign currency translation reserves represent the cumulative gains and losses on the retranslation of AIB UK Group's net investment in foreign operations, at the rate of exchange at the year-end reporting date net of the cumulative gain or loss on instruments designated as net investment hedges.

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 2015 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.

Amendments to IAS 27, Separate Financial Statements:
Equity Method in Separate Financial Statements

Nature of change
The amendments to IAS 27, Separate Financial Statements, allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

These amendments will not impact on AIB UK Group's consolidated financial statements.

IASB effective date
Annual periods beginning on or after 1 January 2016.

Amendments to IAS 1, Presentation of Financial Statements: *Disclosure Initiative*

Nature of change

These amendments to IAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

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

IASB effective date
Annual periods beginning on or after 1 January 2016.

Annual Improvements to IFRS's 2012-2014 Cycle

Nature of change
The IASB's annual improvements project provides a process for making amendments to IFRS's that are considered non-urgent but necessary. The amendments clarify guidance and wording, or correct for relatively minor unintended consequences, conflicts or oversights in existing IFRS's. Annual Improvements to IFRS's 2012- 2014 Cycle amends IFRS's in relation to four issues addressed during this cycle.

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

IASB effective date
Annual periods beginning on or after 1 January 2016.

Amendments to IAS 7, Statement of Cash Flows

Nature of change
The amendments to IAS 7, Statement of Cash Flows, which were issued in January 2016, require that the following changes in liabilities arising from financing activities be disclosed to the extent necessary:

- changes from financing cash flows;
- changes arising from obtaining or losing control of subsidiaries or other businesses;
- the effect of changes in foreign exchange rates; and
- other changes.

It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the definition.

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

The amendments are subject to EU endorsement.

IASB effective date
Annual periods beginning on or after 1 January 2017.

Amendments to IAS 12, Income Taxes: *Recognition of Deferred Tax Assets for Unrealised Losses*

Nature of change
The amendments in Recognition of Deferred Tax Assets for Unrealised Losses, which were issued in January 2016, clarify the following aspects:

- unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use;
- the carrying amount of an asset does not limit the estimation of probable future taxable profits;
- estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences; and
- an entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

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

The amendments are subject to EU endorsement.

IASB effective date
Annual periods beginning on or after 1 January 2017.

IFRS 15, Revenue from Contracts with Customers

Nature of change
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.

The impacts of this standard are being considered by AIB UK Group.

The standard is subject to EU endorsement.

IASB effective date
Annual periods beginning on or after 1 January 2018.

IFRS 9, Financial Instruments

Nature of change
IFRS 9 Financial Instruments was issued in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes a revised classification and measurement model, a forward looking 'expected credit loss' impairment methodology and modifies the approach to hedge accounting. Unless early adopted, the standard is effective for accounting periods beginning 1 January 2018. The key changes under the standard are detailed below.

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.

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.

Impairment

IFRS 9 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.

Financial liabilities

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.

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.

Transition

An AIB Group-wide programme, led jointly by Risk and Finance, commenced work during 2015 to oversee delivery of the requirements for implementation of IFRS 9.

The governance structure includes a Steering Committee mandated to oversee implementation in accordance with the standard, a Technical Approval Group to approve key accounting policy change decisions and an Operating Model Design Authority to approve operating model specifications.

Detailed planning was completed during 2015 and the design phase commenced thereafter, with a number of key decisions required over the course of the first few months in 2016. The programme is structured with various work streams responsible for designing and implementing the end state target operating model, technical accounting interpretations, building and validating IFRS 9 provision models and assessing data and systems requirements.

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

In relation to impairment, due to the complexity of decisions required, it is not possible at this stage to quantify the potential impact.

The Group is evaluating its approach to the hedge accounting requirements given that the macro hedge accounting requirements have not yet been finalised by the IASB.

IASB effective date
Annual periods beginning on or after 1 January 2018.

IFRS 16, Leases

Nature of change
IFRS 16, 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 their incremental borrowing rate.

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

These amendments will impact AIB UK Group although the impact has not yet been identified. The impact will be evaluated in due course.

This standard is subject to EU endorsement.

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

The accounting policies that are deemed critical to AIB UK Group's results and financial position, in terms of the materiality of the items to which the policy is applied and the estimates that have a significant impact on the financial statements are set out in this section. In addition, estimates with a significant risk of material adjustment in the next year are also discussed.

Going concern

The Directors have considered the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 2015 on pages 55 to 60.

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 2015 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 risk is identified, assessed and measured through the use of credit rating and scoring tools. The ratings influence the management of individual loans. Special attention is paid to lower quality rated loans and, where appropriate, loans are transferred to specialist units to help avoid default, or where in default, to help minimise loss. The credit rating triggers the impairment assessment and if relevant the raising of specific provisions on individual loans where there is doubt about their recoverability.

The management process for the identification of loans requiring provision is underpinned by independent review. 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. After a period of time, when it is concluded that there is no real prospect of recovery of loans/part of loans which have been subjected to a specific provision, AIB UK Group writes off that amount of the loan deemed irrecoverable against the specific provision held against the loan.

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. Specific provisions are created for cases that are individually significant (i.e. above certain thresholds), and also collectively for assets that are not individually significant.

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 also maintained to cover loans which are impaired at the reporting date and, while not specifically identified, are known from experience to be present in any portfolio of loans. 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.

Forbearance

AIB UK Group has developed a number of forbearance strategies for both short-term and longer-term solutions to assist customers experiencing financial difficulties. The forbearance strategies involve modifications to contractual repayment terms in order to improve the collectability of outstanding debt, to avoid default, and where relevant, to avoid repossessions. Forbearance strategies take place in both retail and business portfolios, particularly, residential mortgages. Where levels of forbearance are significant, higher levels of uncertainty with regard to judgement and estimation are involved in determining their effects on impairment provisions. Further information on forbearance strategies is set out in the Risk Management section of this report.

Deferred taxation

AIB UK Group's accounting policy for deferred tax is set out in note 2.11. Details of AIB UK Group's deferred tax assets and liabilities are set out in note 28.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable (defined for this purpose as more likely than not) that there will be sufficient future taxable profits against which the losses can be used. For a company with a history of recent losses, there must be convincing evidence underpinning this assessment. The recognition of the deferred tax asset relies on the assessment of future profitability and the sufficiency of those profits to absorb losses carried forward. It requires significant judgements to be made about the projection of long-term future profitability because of the period over which recovery extends.

In assessing future profitability, the Board has considered a range of positive and negative evidence for this purpose, including:

- AIB UK Group has achieved pre-tax profits in 2013, 2014 and 2015, reversing the trend of losses of previous years;
- AIB UK Group has a sustained history of long-term positive earnings prior to pre-tax losses incurred in 2010-2012 and the losses incurred in those years were significantly impacted by the transfer of loans to AIB UK Loan Management Limited and to the Republic of Ireland's National Asset Management Agency (NAMA), which were one-off events that are not expected to recur;
- the Business Plan for AIB UK Group for the period 2016 to 2018, has been updated and approved by the Board in December 2015;
- the benefits of AIB UK Group's restructuring of the business and its associated cost base; AIB GB has completed its business restructuring programme, and Phase 3 of the FTB restructure is underway;
- the de-leveraging and de-risking of the loan portfolios in 2015;

- profit levels beyond the scope of the three year Business Plan have been held constant in future years, which is a conservative assessment given underlying UK GDP growth of 2% per annum over the long term;

- continued substantial financial support from the Parent, and a commitment from the Parent for substantial technology and process investment in AIB UK Group;

- absence of any expiry dates for Irish and UK tax losses; and

- the expected future economic outlook, where external forecasts for the UK economy which indicate continued economic recovery through the period of the financial plan

Against this, there are a number of uncertainties inherent in any long-term financial assumptions and projections and other negative evidence, including:

- losses incurred in years 2010 to 2012;

- the difficulty of accurately predicting future revenues;

- continued funding and margin pressures, in a challenging market environment;

- divergent treatment of deferred taxation from a statutory accounting and regulatory perspective;

- the absolute level of the deferred tax asset compared to the level of equity and the quantum of profits required to utilise the asset;

- reduced size of AIB UK Group's operations following re-structuring;

- downside risk to the recovery of the UK economy and continued low interest rate environment; and

- weakness in the Eurozone and in the Irish and global economies.

Having taken into account all these factors, AIB UK Group believes that it is more likely than not that it will achieve profits producing a sustainable market-range return on equity in the long-term.

The Directors have determined that recognition of the UK deferred tax asset is restricted to the amount projected to be realised within fifteen years. This is the period within which AIB UK Group believes that it can assess the likelihood of UK profits arising as being more likely than not. As a result of these considerations, £380m of deferred tax assets have not been recognised in the 2015 accounts (2014: £262m). The increase of £118m of unrecognised deferred tax assets is driven by UK legislative changes restricting the utilisation of carried forward losses, and the reduction in UK corporation tax rates.

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.

In December 2014 the UK Chancellor announced in his Autumn Statement that, from 1 April 2015, only fifty per cent of a bank's annual trading profits can be sheltered by unused tax losses arising before that date. This proposal was enacted in the 2015 Finance Act in March 2015 and, as a result, 50% of AIB UK Group's deferred tax asset, amounting to £178m, was written off in the current year.

IAS 12 does not permit a company to apply present value discounting to its deferred tax assets or liabilities, regardless of the estimated timescales over which those assets or liabilities are projected to be realised. AIB UK Group's deferred tax assets are projected to be realised over a long timescale, benefiting from the absence of any expiry date for Irish or UK tax losses. As a result, the carrying value of the deferred tax assets on the statement of financial position does not reflect the economic value of those assets.

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 accounting policy number 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.

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. Given the uncertainty and subjective nature of valuing financial instruments at fair value, any change in these variables could give rise to the financial instruments being carried at a different valuation, with a consequent impact on shareholders' equity and, in the case of derivatives and contingent capital instruments, the income statement.

Retirement benefit obligations

AIB UK Group's accounting policy for retirement benefit plans is set out in accounting policy number 2.9.

AIB UK Group has historically provided pension benefits for employees, either through a funded defined benefit scheme, the AIB Group (UK) Pension Scheme (the UK Scheme) or through a defined contribution 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.

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 longevity of scheme members. The impact on the income statement and statement of financial position could be materially different if a different set of assumptions were used or when it was deemed an inability to fund discretionary increases to members. The assumptions adopted for AIB UK Group's pension schemes are set out in note 12 to the financial statements, together with a sensitivity analysis of the scheme liabilities to changes in those assumptions.

The risks in relation to the retirement benefit obligations have been mitigated by the asset backed funding arrangement established through the Scottish Limited Partnership as outlined in note 12.

Provisions for liabilities and commitments

AIB UK Group's accounting policy for provisions for liabilities and commitments is set out in accounting policy number 2.25 'Non-credit risk provisions'. AIB UK Group recognises liabilities where it has present legal or constructive obligations as a result of past events and it is more likely than not that these obligations will result in an outflow of resources to settle the obligations and the amount can be reliably estimated. Details of the AIB Group UK's liabilities and commitments are shown in note 33 to the financial statements.

The recognition and measurement of liabilities, in certain instances, may involve a high degree of uncertainty, and therefore, considerable time is expended on research in establishing the facts, scenario testing, assessing the probability of the outflow of resources and estimating the amount of any loss. This process will, of its nature, require significant management judgement and will require revisions to earlier judgements and estimates as matters progress towards resolution. However, at the earlier stages of provisioning, the amount provided for can be very sensitive to the assumptions used and there may be a wide range of possible outcomes in particular cases. Accordingly, in such cases, it is often not practicable to quantify a range of possible outcomes. In addition, it is also not practicable to measure ranges of outcomes in aggregate in a meaningful way because of the diverse nature of these provisions and the differing fact patterns.

4. Interest and similar income

	2015 £m	2014 £m
Interest on loans and receivables to banks	55	49
Interest on loans and receivables to customers	228	233
Interest from finance leasing and hire purchase contracts	6	4
Interest and similar income	**289**	**286**

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 £289m (2014: £286m).

Interest income recognised on impaired loans amounts to £10m (2014:£11m).

5. Interest expense and similar charges

	2015 £m	2014 £m
Interest on deposits by banks	37	37
Interest on customer accounts	37	47
Interest on debt securities in issue	7	9
Interest expense and similar charges	**81**	**93**

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 £81m (2014: £93m).

6. Net fee and commission income

	2015 £m	2014 £m
Retail banking customer fees	31	33
Credit related fees	7	4
Credit card commission	4	5
Other fees and commission	8	7
Fee and commission income	**50**	**49**
Fee and commission expense	**(5)**	**(5)**
Net fee and commission income	**45**	**44**

7. Net trading and other financial income

	2015 £m	2014 £m
Foreign exchange contracts	9	9
Interest rate contracts	4	(15)
Equity index contracts and warrants [(1)]	2	-
Net trading and other financial income	**15**	**(6)**

[(1)] The AIB Joint Venture Limited Subsidiary of AIB UK Group reassessed the value of an equity warrant held within an equity investment which resulted in a recognition of £2m profit.

8. Other operating (expense)/ income

	2015 £m	2014 £m
Dividend income	4	2
Profit on disposal of financial investments available for sale	-	2
Disposal of loans [(1)]	(18)	-
Other operating income	**(14)**	**4**

[(1)] In December 2015 AIB UK Group sold a portfolio of loans to a third party for a consideration of £212m. The loan portfolio had a net book value of £228m, and after taking in to consideration selling and other costs, a loss on disposal of £18m has been recorded on the transaction. See Other assets (note 24) for further detail on the sale.

9. Administrative expenses

	2015 £m	2014 £m
Wages and salaries	61	66
Social security costs	3	7
Pension costs		
- Defined contribution plans (note 12)	10	12
- Defined benefit plans (note 12)	(5)	(3)
Other personnel expenses	14	6
Personnel expenses	**83**	**88**
Operating lease rentals – property	7	9
Other administrative expenses	61	55
General and administrative expenses	**68**	**64**
Administrative expenses	**151**	**152**

On 21 May 2012, the Parent Group announced the specific terms of a voluntary exit programme which included both an early retirement scheme and a voluntary severance scheme. An accrual of £3m (2014: £1m) was made in 2015 in respect of termination benefits arising from the voluntary severance programme.

There is a charge included within administrative expenses in 2015 of £4m (2014: £5m) in respect of the Financial Services Compensation Scheme (FSCS) levy. A provision has been made for the potential levy payable for 2016/17 based on AIB UK Group's deposits at 31 December 2013 and is included within the Provision for liabilities and commitments in the income statement (note 33).

The average number of employees of AIB UK Group during the year was 1,434 (2014: 1,584) and of AIB UK 1,431 (2014: 1,574).

10. Interests in associated undertakings

	2015 £m	2014 £m
Share of results of associated undertakings	-	2
Interests in associated undertakings	**-**	**2**

An associated company was disposed of during 2014 with £2m profit on disposal.

11. Profit on disposal of property

	2015 £m	2014 £m
Profit on disposal of property	-	2
Profit on disposal of property	**-**	**2**

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12. Retirement benefits

AIB UK Group has historically provided pension benefits for employees, either through a funded defined benefit scheme (the UK Scheme) or through a defined contribution scheme.

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 normal retirement date. Benefits payable upon retirement are based on the average pensionable salary over the five years before retirement, subject to a retiree not receiving a pension lower than their current accrued benefit.

The weighted average duration of the UK Scheme at 31 December 2015 is 19 years (2014: 20 years).

Independent actuarial valuations of the defined benefit scheme are carried out on a triennial basis by Mercer Limited, Actuaries and Consultants. The most recent triennial valuation was carried out as at 31 December 2014 using the Projected Unit Method. The results of the valuation were issued by Mercer Limited on 22 December 2015. The valuation concluded that the Notional Annual Contribution Amount payable by the AIB UK Group to the Trustees of the UK Scheme is £19m per annum payable quarterly with effect from 1 January 2016.

The Trustees of the UK Scheme are ultimately responsible for the governance of the scheme. Details of the Pension risk that AIB UK Group is exposed to are set out in the Risk Management section on page 37 of this report. In earlier years AIB UK Group accounted for 96% of the overall UK Scheme as that percentage of the UK Scheme members were employees or ex-employees of the company. Since the UK Scheme closed to future accrual, AIB UK Group has accounted for 100% of the UK Scheme.

The UK Scheme has implemented an investment strategy that includes the elimination of equity investments and investing approximately 40% of the assets invested in liability matching investments (2014: 44%). It is expected that this percentage of assets invested in matching assets will increase over time.

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 new funding plan is secured against a loan book and allows the future contributions payable to be accounted for as current assets of the UK Scheme. The asset backed funding plan grants the UK Scheme a regular income which will be 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.

The Parent Group established a pension funding partnership, AIB PFP Scottish Limited Partnership (SLP) under which a portfolio of loans were transferred to the SLP from another Parent Group entity, AIB UK Loan Management Limited (UKLM) for the purpose of ring-fencing the repayments on these loans to fund future deficit payments of the UK Scheme.

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. In addition, the majority of the risks and rewards will be borne by the Parent Group as while the pension 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.

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 new asset backed funding arrangement came into effect on 19 December 2013. The future funding period was extended from 8 to 17 years, commencing in 2016 with the implementation of the asset backed funding arrangement. In addition, the UK Scheme recognised a curtailment benefit of £36m in the year to 31 December 2013 arising from the closure to future accrual for all existing employees and the removal of other discretionary benefits with effect from 31 December 2013.

At 31 December 2015, the UK Scheme recognises an additional £275m (2014:£271m) of assets from UKLM as a result of this SLP arrangement. There was a net defined benefit asset of £424m at 31 December 2015 (2014: £392m). Excluding the benefit of the UK Scheme's recognition of the SLP assets, the net defined benefit asset at 31 December 2014 was £149m (2014: £128m).

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.

The SLP assets recognised by the UK Scheme at 31 December 2015 is management's best estimate of the valuation based on the estimated change in valuation of the underlying net UK Scheme assets and liabilities. The estimate is based on the following:

- The actuarial assumptions used to derive the Technical Provisions at 31 December 2015 were based on those set out in the Statement of Funding Principles dated 22 October 2013 but updated for financial conditions at 31 December 2015.

- The Technical Provisions at 31 December 2015 were based on a projection of those determined at the formal valuation at 31 December 2011, based on the above assumptions.

- It was assumed that the discount rate which will be used to value payments to the UK Scheme from the asset backed funding arrangement will be the same as the IAS 19 discount rate applicable at 31 December 2015.

The following table summarises the financial assumptions adopted for the UK Scheme:

As at 31 December	**2015**	2014
	%	%
Rate of increase in salaries	-	-
Rate of increase of pensions in payment	3.0%	3.0%
Discount rate	3.9%	3.7%
Inflation assumptions:		
- Retail Price Index (RPI)	3.0%	3.3%
- Consumer Price Index (CPI)	2.0%	2.3%

The discount rate used to value the liability, is set by reference to high quality AA corporate bond yields, in accordance with IAS 19. The expected return on plan assets is based on the long-term rate of return expected for each class of asset and is weighted on the basis of the fair value of these assets.

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 2015 and 2014.

	2015			2014		
	Defined benefit obligation	Fair value of scheme assets	Net defined benefit liability/ (asset)	Defined benefit obligation	Fair value of scheme assets	Net defined benefit liability/ (asset)
	£m	£m	£m	£m	£m	£m
At 1 January	1,022	(1,414)	(392)	852	(1,090)	(238)
Included in profit or loss						
Interest cost/(income)	37	(52)	(15)	42	(52)	(10)
Curtailment						
- Termination	-	-	-	-	-	-
	37	(52)	(15)	42	(52)	(10)
Included in other comprehensive income						
Remeasurements loss/(gain)	-	-	-	-	-	-
Actuarial loss/(gain) arising from:						
- Experience adjustments	(6)	-	(6)	-	-	-
- Changes in demographic assumptions	(27)	-	(27)	-	-	-
- Changes in financial assumptions	(38)	-	(38)	160	-	160
- Return on scheme assets excluding SLP	-	40	40	-	(234)	(234)
- Return on SLP assets	-	14	14	-	(70)	(70)
	(71)	54	(17)	160	(304)	(144)
Other						
Benefits paid	(44)	44	-	(32)	32	-
	(44)	44	-	(32)	32	-
At 31 December	944	(1,368)	(424)	1,022	(1,414)	(392)

Mortality assumptions

The mortality assumptions were reviewed during 2014, as part of the triennial actuarial review, and include sufficient allowance for future improvements in mortality rates. These assumptions are based on the S1NxA_L mc tables (males +0; females -1) with a 1.5% per annum underpin which is based on data collected by the Continuous Mortality Investigation (CMI).

The life expectancies underlying the value of the scheme liabilities for the UK Scheme at 31 December 2015 and 2014 are as set out below.

	Retiring today at age 63		Retiring at age 63, currently aged 53*	
Life expectancy from age 63	2015	2014	2015	2014
Male	25.6	26.3	26.7	28.4
Female	27.8	28.6	29.0	30.8

** For 2014 comparative: currently aged 45*

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

As at 31 December	2015 £m	2014 £m
Discount rate		
a. Discount rate -25 basis points	990	1,073
Assumption	3.65%	3.45%
b. Discount rate +25 basis points	902	974
Assumption	4.15%	3.95%
Weighted average duration of defined benefit obligation (years)	19	20
Inflation rate		
a. Inflation rate -25 basis points	929	976
RPI inflation assumption	2.75%	2.75%
b. Inflation rate +25 basis points	960	1,070
RPI inflation assumption	3.25%	3.25%
Mortality assumption	SN2A ("light" for males) year of birth tables weighted by 102% (males) and 88% (females), and rated down by one year for both males and females with CMI 2014 future improvements with a 1.5% per annum long term rate of improvement	S1NA light year of birth tables, rated down by one year for females only, with CMI 2011 future improvements with a 1.5% p.a. long-term rate of improvement

As a result of the mortality analysis carried out as part of the Trustee's triennial actuarial valuation as at 31 December 2014, the mortality tables have been updated to reflect the latest best estimate life expectancy for the scheme membership. In addition the opportunity was taken to adopt an updated future mortality improvement model. The revised basis shows a reduction in sample life expectancies of approximately 0.8 years, due to the change to the base mortality table, and the updated mortality projection model. The impact of this change is to reduce the defined benefit obligation of the UK Scheme by approximately £25m.

The following table sets out the fair value of the assets held by the UK Pension Scheme together with the long-term rate of return expected for each class of assets:

	2015		2014	
	Value £m	Plan assets %	Value £m	Plan assets %
Bonds	547	40	517	37
Other	3	-	1	-
Liability Driven Investments	543	40	625	44
SLP	275	20	271	19
Fair value of plan assets	**1,368**	**100**	**1,414**	**100**
Actuarial value of liability	(944)		(1,022)	
Surplus in scheme	**424**		**392**	
Related deferred tax liability (note 28)	(110)		(78)	
Net pension asset	**314**		**314**	

Deferred taxation is provided on the defined pension scheme surplus at the rate of 26% being the expected corporation tax rate of 18% plus the UK bank surcharge of 8% (2014: 20%).

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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.

History of defined benefit pension plan	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Plan assets	1,368	1,414	1,090	870	829
Defined benefit obligation	(944)	(1,022)	(852)	(893)	(776)
Surplus/(deficit) in defined benefit pension plan	**424**	**392**	**238**	**(23)**	**53**

Following the receipt of the 2014 triennial valuation, AIB UK Group are due to make the first quarterly instalment of the agreed annual contribution of £19m in April 2016.

Defined contribution scheme

Employees joining after December 1997 joined on a defined contribution basis. Employees joining from 1 January 2009 join a revised defined contribution scheme. Existing members of the defined contribution scheme were also given the opportunity to join the enhanced scheme. The standard contribution rate in the UK for the ordinary defined contribution scheme is 5%.

The new enhanced scheme has increments in the employer contributions ranging from 5% to 20%, increasing as the employee gets older. The employee contribution rate also increases with age. These members are also accruing benefits under S2P (the State Second Pension). AIB UK Group also pays an additional amount for Permanent Health Insurance (PHI) in respect of Defined Contribution Scheme Members.

With the closure of the UK defined benefit scheme to future accrual from 31 December 2013, all eligible employees became members of the UK defined contribution scheme. As a result, the total cost in respect of defined contribution schemes for 2015 was £10m (2014: £12m).

13. Auditor's remuneration

Auditor's remuneration is included within other administrative expenses in the income statement. The charges included in 2015 and 2014, 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.

	2015 £000	2014 £000
Audit fees for statutory audit	250	252
Audit of subsidiaries(1)	-	30
Other assurance services (including regulatory compliance work)	82	57
Audit of pension schemes associated with AIB UK Group	12	25
Other non-audit services (2)	961	3,666
Auditor's remuneration	**1,305**	**4,030**

In addition to the above fees, Deloitte LLP receive an audit fee of £30k (2014: £30k) in relation to the audit of Tenterden Fundling plc which is paid by that company.

(1) The audit of subsidiaries is included within the statutory audit fee and therefore will no longer be disclosed separately with effect from 2015.
(2) In conjunction with the Financial Conduct Authority in the UK, Deloitte LLP were appointed to undertake a Section 166 Review in AIB Group (UK) plc in 2012. Since 20 June 2013, the date Deloitte & Touche were appointed Group Auditor, £8.4 million has been paid to Deloitte LLP as this review has continued into 2015. The expectation is that Deloitte involvement will conclude during 2016.

14. Taxation on ordinary activities

	2015 £m	2014 £m
UK corporation tax on profits for the period	7	-
Adjustments in respect of prior periods	1	7
Current tax	**8**	**7**
Origination and reversal of temporary differences	16	10
Changes in tax rates and laws or the imposition of new taxes	17	-
Adjustments in respect of previous periods	(1)	1
Deferred tax on losses not recognised		
- Current period	(4)	-
Reduction in carrying value of deferred tax asset in respect of losses	162	69
Deferred tax	**190**	**80**
Total tax expense	**198**	**87**

The tax charge for the period is higher (2014: higher) than the 2015 standard average rate of corporation tax in the UK of 20.25% (2014: 21.5%).The differences are explained below:

	2015 £m	2014 £m
Corporation tax charge/ (credit) at standard average rate	23	3
Effects of:		
Expenses not deductible for tax purposes	1	-
Exempted income, income at reduced rates and tax credits	(1)	-
Income taxed at higher rates	-	-
Deferred tax assets not recognised/reversal of amounts previously not recognised	(4)	69
Other differences	-	7
Change in tax rates	17	-
Impact of change in tax legislation on deferred tax asset	162	-
Adjustments to tax charge in respect of previous years	-	8
Total tax expense	**198**	**87**

At 31 December 2015 the current tax balance of AIB UK Group was a liability of £3m (2014: £3m asset).

15. Dividends on equity shares

No dividends were paid during 2015 or 2014.

16. 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 have not been derecognised and continue to be reported in AIB UK's accounts. Tenterden is 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 is included within 'Debt securities in issue' (note 31) on the statement of financial position.

The following table shows the current carrying value of the financial assets (loans and receivables) transferred but not derecognised and the liability due to external investors:

	2015	2014
	£m	£m
Loans and receivables to customers		
Carrying amount of assets currently recognised	216	258
Carrying amount of associated liabilities currently recognised	99	139

Continuing involvement in derecognised financial assets

Transfers to AIB UK Group

In 2013 a small number of loans were transferred in to AIB UK Group from AIB UK Group's offshore entities in Jersey and the Isle of Man. These loans were acquired at fair value, and are included in AIB UK Group's loans and receivables.

Also during 2013, a small number of loans were transferred back to AIB UK Group from AIB UKLM. These loans had originally been transferred to AIB UKLM in 2010 and 2011. See note below. These loans were acquired at fair value, and are included in AIB UK Group's loans and receivables.

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 UK LM 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

As outlined in note 24, Other assets, AIB UK Group sold a portfolio of loans to a third party on 14 December 2015. 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, at the earliest, 1 March 2016. AIB UK Group are providing these servicing costs at no charge until 31 March 2016.

17. 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.

Trading derivatives

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. During 2015, AIB UK Group entered into new NIRIL (Net Interest Rate Insensitive Liabilities) deals as a means of funding intercompany transactions. The new approach was driven by market structural changes since the financial crisis. There were no transactions of this nature in 2014.

The net movement in derivatives designated as cash flow hedges recognised directly in equity through the statement of comprehensive income during 2015 is set out in note 35.

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 2015 and 2014.

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

AIB UK Group	2015 Notional principal amount £m	2015 Fair values Assets £m	2015 Fair values Liabilities £m	2014 Notional principal amount £m	2014 Fair values Assets £m	2014 Fair values Liabilities £m
Derivatives held for trading:						
Foreign exchange derivatives total	202	3	(2)	229	3	(3)
Interest rate swaps	1,087	83	(99)	1,203	113	(132)
Interest rate options	195	1	(1)	268	2	(2)
Interest rate contracts total	1,282	84	(100)	1,471	115	(134)
Equity index options	8	-	-	63	4	(4)
Equity Warrants	2	2	-	-	-	-
Equity index contracts total	10	2	-	63	4	(4)
Total trading contracts	1,494	89	(102)	1,763	122	(141)
Derivatives held for hedging:						
Interest rate swaps	2,508	3	(8)	-	-	-
Derivatives designated as cash flow hedges total	2,508	3	(8)	-	-	-
Total derivative financial instruments	4,002	92	(110)	1,763	122	(141)

AIB UK	2015 Notional principal amount £m	2015 Fair values Assets £m	2015 Fair values Liabilities £m	2014 Notional principal amount £m	2014 Fair values Assets £m	2014 Fair values Liabilities £m
Derivatives held for trading:						
Foreign exchange derivatives total	202	3	(2)	229	3	(3)
Interest rate swaps	1,087	84	(99)	1,203	113	(132)
Interest rate options	195	1	(1)	268	2	(2)
Interest rate contracts total	1,282	85	(100)	1,471	115	(134)
Equity index options	8	-	-	63	4	(4)
Equity Warrants	-	-	-	-	-	-
Equity index contracts total	8	-	-	63	4	(4)
Total trading contracts	1,494	88	(102)	1,763	122	(141)
Derivatives held for hedging:						
Interest rate swaps	2,508	3	(8)	-	-	-
Derivatives designated as cash flow hedges total	2,508	3	(8)	-	-	-
Total derivative financial instruments	4,002	91	(110)	1,763	122	(141)

Equity index contracts

AIB UK Group offers secure saver products to its customers. This product contains an option which is linked to the performance of an index. The following table shows the nominal of the options held by customers as part of the secure saver product at 31 December 2015 and 2014.

AIB UK Group & AIB UK	2015 £m	2014 £m
Maturity		
1 year or less	4	27
5 years or less, but over 1 year	-	4
Equity index contracts*	**4**	**31**

**These balances form part of the equity index options in in the previous table.*

Cash flow hedges

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

					2015
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	Total £m
Forecast receivable cash flows	10	12	34	28	84
Forecast payable cash flows	1	1	2	-	4

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

					2015
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	Total £m
Forecast receivable cash flows	10	12	34	28	84
Forecast payable cash flows	1	1	2	-	4

For AIB Group, the ineffectiveness reflected in the income statement that arose from cash flow hedges is nil (2014: nil).

The total amount recognised in other comprehensive income net of tax in respect of cash flow hedges was a charge of £5m (2014: nil).

18. Loans and receivables to banks

	AIB UK Group		AIB UK	
	2015 £m	2014 £m	2015 £m	2014 £m
Funds placed with the Bank of England	482	424	482	423
Funds placed with other banks	2,348	3,036	2,329	3,019
Loans and receivables to banks	**2,830**	**3,460**	**2,811**	**3,442**
Amounts include:				
Reverse repurchase agreements with ultimate parent	-	62	-	62
Due from parent and fellow subsidiaries	2,251	2,911	2,251	2,911
External rating:				
AA+	482	424	482	423
AA/AA-	53	20	53	20
A/A+	44	42	25	25
BB	-	2,974	-	2,974
BB+	2,251	-	2,251	-
Loans and receivables to banks	**2,830**	**3,460**	**2,811**	**3,442**

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 2015 (2014: £62m) in respect of government securities. No collateral (2014: £62m) was repledged to the Bank of England as collateral for BACS membership.

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19. Loans and receivables to customers

	AIB UK Group		AIB UK	
	2015	2014	2015	2014
	£m	£m	£m	£m
Loans and receivables to customers	6,604	6,707	6,605	6,707
Amounts receivable under finance leases and hire purchase contracts (note 22)	149	98	148	98
	6,753	**6,805**	**6,753**	**6,805**
Provisions for impairment (note 20)	(281)	(430)	(281)	(430)
Loans and receivables to customers	**6,472**	**6,375**	**6,472**	**6,375**
Amounts include:				
Due from parent and fellow subsidiaries	94	155	97	157

In May 2012 AIB UK securitised certain of its residential mortgage portfolio and the mortgages were transferred to a securitisation vehicle, Tenterden Funding p.l.c. The transaction did not meet the derecognition criteria of IAS 39, as AIB UK still retains the risk and rewards of ownership, therefore the mortgages are included in the loans and receivables to customers for both AIB UK Group and AIB UK as detailed above (refer to note 16 for further information on the securitisation of residential mortgages).

In December 2015 AIB UK Group sold a portfolio of loans to a third party for a consideration of £212m. The loan portfolio had a net book value of £228m, and after taking into consideration selling and other costs, a loss on disposal of £18m has been recorded on the transaction. The sale agreement was signed on 14th December 2015, and the loans derecognised from the balance sheet of AIB UK Group at that date. See Other assets note 24 for further detail on the sale.

Further disclosures relevant to AIB UK Group's loans and receivables to customers are included in the Risk management section.

20. Provision for impairment of loans and receivables

The following table shows provisions for impairment on loans and receivables to customers. Further information on provisions for impairment is disclosed in the Risk management section.

	2015				2014			
	Corporate/ commercial	Residential mortgages	Other	Total	Corporate/ commercial	Residential mortgages	Other	Total
AIB UK Group & AIB UK	£m	£m	£m	£m	£m	£m	£m	£m
Provision at 1 January 2015	267	136	27	430	289	131	61	481
Exchange translation adjustments					-	-	(1)	(1)
Recoveries	(19)	(34)	-	(53)	-	-	-	-
Charge	4	(8)	1	(3)	15	11	5	31
Amounts written off	(93)	-	-	(93)	(37)	(6)	(38)	(81)
Provision at 31 December 2015	159	94	28	281	267	136	27	430

Total provisions are split between specific and IBNR as follows:

	2015				2014			
	Corporate/ commercial	Residential mortgages	Other	Total	Corporate/ commercial	Residential mortgages	Other	Total
AIB UK Group & AIB UK	£m	£m	£m	£m	£m	£m	£m	£m
Specific	131	85	24	240	235	122	26	383
IBNR	28	9	4	41	32	14	1	47
Provision at 31 December 2015	159	94	28	281	267	136	27	430

Loan impairment charge

	2015	2014
AIB UK Group & AIB UK	£m	£m
Specific (recovery)/ charge	(2)	57
IBNR (release)/charge	(2)	(27)
Recoveries	(1)	(1)
Bad debts written off not already provided	2	2
Total loan impairment charge	(3)	31

A loan is impaired if there is objective evidence of impairment as a result of one or more impairment triggers that occurred after the initial recognition of the assets (a "loss event") and that loss event has an impact such that the estimated present value of future cash flows is less than the current carrying value of the financial asset or group of assets.

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21. Additional credit risk disclosures

Credit profile of total loans and receivables

Aged analysis of contractually past due but not impaired facilities

The table below sets out the aged analysis of contractually past due but not impaired loans and receivables to customers at 31 December 2015 and 31 December 2014.

	2015					2014				
	1-30 days £m	31-60 days £m	61-90 days £m	91+ days £m	Total £m	1-30 days £m	31-60 days £m	61-90 days £m	91+ days £m	Total £m
Agriculture	2	-	-	-	2	2	1	-	-	3
Manufacturing	17	-	-	-	17	2	-	-	-	2
Construction and property	20	11	2	11	44	35	19	4	10	68
Distribution	9	1	1	1	12	7	-	-	4	11
Financial	1	-	-	1	2	6	-	-	1	7
Other services	4	2	-	4	10	8	1	-	-	9
Personal										
- Residential mortgages	18	10	9	15	52	15	12	16	20	63
- Other personal	3	2	1	1	7	5	1	-	2	8
	74	26	13	33	146	80	34	20	37	171
As a percentage of total loans [(1)]	1.1%	0.4%	0.2%	0.5%	2.2%	1.2%	0.5%	0.3%	0.5%	2.5%

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

Customer loan rating profile

	2015				2014			
Group Masterscale grade	Corporate/ commercial £m	Residential mortgages £m	Other £m	Total £m	Corporate/ commercial £m	Residential mortgages £m	Other £m	Total £m
1 to 3	105	69	-	174	120	55	-	175
4 to 10	3,722	1,165	180	5,067	2,938	1,348	194	4,480
11 to 13	590	261	25	876	891	271	57	1,219
	4,417	1,495	205	6,117	3,949	1,674	251	5,874
Past due but not impaired	88	52	6	146	93	63	8	164
Impaired	269	187	34	490	503	227	37	767
	4,774	1,734	245	6,753	4,545	1,964	296	6,805

Grade 1 – 3 would typically include strong corporate and commercial lending combined with elements of the retail portfolios and residential mortgages.

Grades 4 – 10 would typically include new business written and existing satisfactorily performing exposures across all portfolios. The lower end of this category (Grade 10) includes a portion of AIB UK Group's criticised loans (i.e. loans requiring additional management attention over and above that normally required for the loan type).

Grades 11 – 13 contains the remainder of AIB UK Group's criticised loans, excluding impaired loans, together with loans written at a high probability of default where there is a commensurate higher margin for the risk taken.

Credit profile of residential mortgages

Residential mortgages amounted to £1,734m at 31 December 2015 (2014: £1,964m).

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

- Residential mortgages – total
- Residential mortgage loans in forbearance
- Arrears profile of residential mortgages – past due but not impaired
- Repossessions
- 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.

	2015			2014		
	Owner occupier £m	Buy to let £m	Total £m	Owner occupier £m	Buy to let £m	Total £m
Total residential mortgages	1,504	230	1,734	1,696	268	1,964
In arrears (> 30 days past due)	186	35	221	216	44	260
In arrears (> 90 days past due)	169	33	202	180	39	219
Of which are impaired	155	32	187	188	39	227
Statement of financial position specific provisions	67	18	85	96	26	122
Statement of financial position IBNR provisions	8	1	9	10	4	14
Income statement specific provisions	5	1	6	14	-	14
Income statement IBNR provisions (release)	4	1	5	(10)	1	(9)
Specific provision/impaired loans cover	43%	56%	45%	51%	67%	54%

Residential mortgage loans in forbearance

AIB UK Group has a number of forbearance strategies in operation to assist borrowers who have difficulty in meeting repayment commitments. These are described on pages 32 - 33.

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 2015 and 31 December 2014.

	2015				2014			
	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	33	3	14	1	74	9	23	3
Reduced payment	57	6	18	2	104	10	52	5
Payment moratorium	6	-	-	-	7	1	1	-
Arrears capitalisation	129	8	30	2	122	14	40	9
Term extension	192	16	39	5	142	15	26	5
Total	**417**	**33**	**101**	**10**	**449**	**49**	**142**	**22**

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

	2015				2014			
	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 – Buy to Let Mortgages	Number	Balance £m	Number	Balance £m	Number	Balance £m	Number	Balance £m
Interest only	4	-	-	-	7	1	1	-
Reduced payment	10	1	5	-	13	2	1	-
Payment moratorium	-	-	-	-	-	-	-	-
Arrears capitalisation	10	1	2	-	7	1	1	-
Term extension	20	3	3	1	19	6	1	4
Total	**44**	**5**	**10**	**1**	**46**	**10**	**4**	**4**

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 2015 and 31 December 2014:

	2015			2014		
	Owner occupier £m	Buy to let £m	Total £m	Owner occupier £m	Buy to let £m	Total £m
1 – 30 days	17	2	19	13	2	15
31 – 60 days	9	1	10	10	2	12
61 – 90 days	8	1	9	15	1	16
91 – 180 days	6	1	7	6	1	7
181 – 365 days	3	-	3	5	1	6
Over 365 days	5	-	5	6	1	7
Total past due but not impaired	**48**	**5**	**53**	**55**	**8**	**63**

Repossessions

The number (stock) of repossessions of residential mortgages at 31 December 2015 and 31 December 2014 is set out below:

	2015		2014	
	Number of repossessions	Balance outstanding £m	Number of repossessions	Balance outstanding £m
Owner occupier	46	10	72	20
Buy to let	19	2	33	4
Total	**65**	**12**	**105**	**24**

In respect of retail portfolios, AIB UK Group does not take physical possession of properties or other assets held as collateral and uses external agents to realise the value as soon as practicable, to settle indebtedness. Any surplus funds are dealt with in accordance with appropriate insolvency regulations.

Analysis of loan-to-value of residential mortgage lending

						2015
	Owner occupier		Buy to let		Total	
Neither past due nor impaired	£m	%	£m	%	£m	%
Less than 50%	435	33.4%	58	30.0%	493	32.9%
50%-70%	288	22.1%	27	13.9%	315	21.1%
71%-80%	149	11.5%	15	7.7%	164	11.0%
81%-90%	116	8.9%	14	7.2%	130	8.7%
91%-100%	76	5.8%	14	7.2%	90	6.0%
101%-120%	108	8.3%	32	16.5%	140	9.4%
121%-150%	97	7.5%	31	16.0%	128	8.6%
Greater than 150%	32	2.5%	3	1.5%	35	2.3%
Total	**1,301**	**100.0%**	**194**	**100.0%**	**1,495**	**100.0%**

						2014
	Owner occupier		Buy to let		Total	
Neither past due nor impaired	£m	%	£m	%	£m	%
Less than 50%	424	29.2%	59	26.8%	483	28.9%
50%-70%	302	20.8%	27	12.3%	329	19.7%
71%-80%	164	11.3%	17	7.7%	181	10.8%
81%-90%	138	9.5%	15	6.8%	153	9.1%
91%-100%	95	6.5%	13	5.9%	108	6.5%
101%-120%	124	8.5%	30	13.6%	154	9.2%
121%-150%	126	8.6%	40	18.3%	166	9.8%
Greater than 150%	81	5.6%	19	8.6%	100	6.0%
Total	**1,454**	**100.0%**	**220**	**100.0%**	**1,674**	**100.0%**

						2015
	Owner occupier		Buy to let		Total	
Past due and/or impaired	£m	%	£m	%	£m	%
Less than 50%	30	15.0%	3	7.1%	33	13.8%
50%-70%	29	14.1%	2	6.5%	31	13.0%
71%-80%	21	10.4%	1	3.2%	22	9.3%
81%-90%	14	6.8%	2	6.5%	16	6.7%
91%-100%	11	5.2%	5	14.2%	16	6.6%
101%-120%	18	9.1%	3	7.9%	21	8.9%
121%-150%	24	11.8%	6	15.7%	30	12.4%
Greater than 150%	33	16.5%	3	8.9%	36	15.4%
Repossessed (unsecured)	23	11.1%	11	30.0%	34	13.9%
Total	**203**	**100.0%**	**36**	**100.0%**	**239**	**100.0%**

						2014
	Owner occupier		Buy to let		Total	
Past due and/or impaired	£m	%	£m	%	£m	%
Less than 50%	28	11.4%	2	4.7%	30	10.3%
50%-70%	28	11.5%	4	7.3%	32	10.8%
71%-80%	16	6.8%	1	2.3%	17	6.1%
81%-90%	19	8.0%	2	3.9%	21	7.3%
91%-100%	15	6.1%	2	3.7%	17	5.7%
101%-120%	18	7.7%	8	15.9%	26	9.1%
121%-150%	28	11.9%	8	15.6%	36	12.5%
Greater than 150%	62	25.7%	9	18.9%	71	24.5%
Repossessed (unsecured)	26	10.9%	14	27.9%	40	13.7%
Total	**240**	**100.0%**	**50**	**100.0%**	**290**	**100.0%**

Loan origination profile of residential mortgages

The following tables profile the residential mortgage book and impaired residential mortgage book at 31 December 2015 and 31 December 2014 by year of origination:

				2015				2014
	Residential mortgage loan book		**Impaired residential mortgage loan book**		Residential mortgage loan book		Impaired residential mortgage loan book	
	Number	**Balance**	**Number**	**Balance**	Number	Balance	Number	Balance
		£m		£m		£m		£m
1996 and before	1,466	31	35	2	1,742	37	34	1
1997	403	8	5	-	444	10	5	-
1998	387	9	12	-	456	11	24	1
1999	736	22	34	1	795	25	36	1
2000	793	22	30	1	909	27	41	1
2001	835	28	55	2	897	33	49	3
2002	1,319	53	76	3	1,453	62	82	3
2003	1,806	91	136	6	1,964	107	164	13
2004	2,059	121	151	8	2,263	142	161	9
2005	2,789	199	288	23	3,025	227	305	24
2006	3,732	341	401	41	4,002	390	440	52
2007	3,277	418	461	76	3,531	474	499	87
2008	1,307	163	110	17	1,428	194	117	23
2009	616	52	25	3	702	64	34	5
2010	311	29	11	4	370	34	11	4
2011	159	11	4	-	178	14	3	-
2012	170	15	1	-	196	20	1	-
2013	303	31	1	-	326	34	1	-
2014	402	54	-	-	409	59	-	-
2015	241	36	-	-				
Total	**23,111**	**1,734**	**1,836**	**187**	**25,090**	**1,964**	**2,007**	**227**

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.

Collateral and other credit enhancements

At 31 December 2015 24% of AIB UK Group's total loan book exposure is to property and construction (2014: 25%).

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.

Residential mortgages: AIB UK Group takes collateral in support of lending transactions for the purchase of residential property. There are clear policies in place which set out the type of property acceptable as collateral and the relationship of loan to property value. All properties are required to be fully insured and be subject to a legal charge in favour of AIB UK Group. Property valuations are updated by application of the Nationwide Building Society House Price Index.

Corporate/Commercial lending: For property related lending, it is normal practice to take a charge over the property being financed. This includes investment and development properties. For non-property related lending, collateral typically includes a charge over business assets such as stock and debtors but which may also include property. In some circumstances, personal guarantees supported by a lien over personal assets are also taken as security.

The following tables show the current estimated fair value of collateral held for residential mortgages. The main types of collateral for loans and receivables to customers are as follows.

	2015				2014			
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%	493	18	15	526	483	13	17	**513**
50% - 70%	315	13	18	346	329	13	18	**360**
71% - 80%	164	5	17	186	181	6	12	**199**
81% - 90%	130	5	11	146	153	8	13	**174**
91% - 100%	90	2	14	106	108	3	14	**125**
	1,192	**43**	**75**	**1,310**	**1,254**	**43**	**74**	**1,371**
Partially collateralised								
Collateral value relating to loans over 100% loan-to-value	302	8	-	**310**	420	20	154	**594**
Gross residential mortgages collateral value	**1,494**	**51**	**75**	**1,620**	**1,674**	**63**	**228**	**1,965**
Statement of financial position								
- Specific provisions	-	-	(85)	(85)	-	-	(122)	**(122)**
- IBNR provisions	-	-	-	(9)	-	-	-	**(14)**
Net residential mortgages collateral value	**1,494**	**51**	**(10)**	**1,526**	**1,674**	**63**	**106**	**1,829**

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22. 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	
	2015	2014	2015	2014
	£m	£m	£m	£m
Gross receivables				
Not later than 1 year	4	3	3	3
Later than 1 year and not later than 5 years	136	89	136	89
Later than 5 years	15	8	15	8
Total gross receivables	**155**	**100**	**154**	**100**
Unearned future finance income	(6)	(2)	(6)	(2)
Total	**149**	**98**	**148**	**98**
Present value of minimum payments by residual maturity				
Not later than 1 year	4	3	3	3
Later than 1 year and not later than 5 years	130	87	130	87
Later than 5 years	15	8	15	8
Present value of minimum payments	**149**	**98**	**148**	**98**
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 20).

23. Financial investments available for sale

	2015	2014
AIB UK Group & AIB UK	£m	£m
Equity shares		
Equity shares: unlisted	54	31
Financial investments available for sale	**54**	**31**

Included in the financial investments available for sale balance as at 31 December 2015 is £21m relating to shares in Visa Europe (2014: nil). See note 38.

Financial investments available for sale (equity securities)

	2015	2014
AIB UK Group & AIB UK	£m	£m
At 1 January	31	33
Exchange translation adjustments	(2)	(2)
Movement in unrealised gains/ (losses)	25	-
At 31 December	**54**	**31**

24. Other assets

	AIB UK Group		AIB UK	
	2015	2014	2015	2014
	£m	£m	£m	£m
Items in transit	21	21	20	20
Acceptances	3	8	3	7
Sale of loans awaiting settlement [(1)]	184	-	184	-
Other debtors	17	15	17	17
Other assets	**225**	**44**	**224**	**44**

[(1)] In December 2015 AIB UK Group sold a portfolio of loans to a third party for a consideration of £212m. The loan portfolio had a net book value of £228m, and after taking into consideration selling and other costs, a loss on disposal of £18m has been recorded on the transaction. The sale agreement was signed on 14 December 2015, 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 is due for payment by the purchaser on 29 January 2016. The amount due to be received from the purchaser is £184m at 31 December 2015. The amount is held net of any cash received from customers that is due to be paid over to the third party. The amount due from the purchaser was received by AIB UK Group on 29 January 2016.

25. Investment in subsidiary undertakings

AIB UK	2015 £000	2014 £000
At 1 January	826	426
Investment in subsidiary	-	1,000
Impairment of investment in subsidiary	-	(600)
Investment in subsidiary undertakings	**826**	**826**

All of the companies listed below and on the following page 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 2015, AIB UK Group held no investments in associated undertakings (2014: two), accounted for in accordance with IAS 28, Investments in Associates.

On 31 December 2014 100,000 ordinary shares of £1 each were issued by First Trust Financial Planning Limited to AIB UK Group at a price of £10 per share, to cover the incurred losses and voluntary severance costs for the restructuring of the business. Following an impairment review of the investment, the Company impaired a proportion of this investment.

The subsidiary undertakings are:

Name	Year End	Nature of Business
First Trust Financial Services Limited (1)	31 December	Financial services
First Trust Financial Planning Limited (2)	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 (3)	31 January	Dormant
First Trust Leasing No.1 (Northern Ireland) Limited (3)	31 March	Dormant
First Trust Leasing No.2 (Northern Ireland) Limited (3)	30 June	Dormant
First Trust Leasing No.3 (Northern Ireland) Limited (3)	30 September	Dormant
First Trust Investment Managers Limited	31 December	Dormant
First Trust Commercial Services Limited	31 December	Dormant

(1) First Trust Financial Services Limited was previously called First Trust Independent Financial Advisers Limited.
(2) First Trust Financial Planning Limited was previously called First Trust Insurance Services Limited.
(3) 100% subsidiary of First Trust Leasing No.4 (Northern Ireland) Limited.

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 continue to be reported in the accounts of AIB UK. Tenterden is consolidated into AIB UK Group's accounts with the class B notes being eliminated on consolidation. The securitisation structure supports the funding activities of AIB UK Group.

26. Property, plant and equipment

AIB UK Group	Property 2015 £m	Equipment 2015 £m	Total 2015 £m	Property 2014 £m	Equipment 2014 £m	Total 2014 £m
Cost at 1 January	41	24	65	49	32	81
Additions	2	2	4	1	-	1
Amounts written off	(4)	(1)	(5)	(9)	(8)	(17)
Cost at 31 December	**39**	**25**	**64**	**41**	**24**	**65**
Accumulated depreciation at 1 January	33	21	54	38	28	66
Charge for year	-	1	1	1	1	2
Impairment charge	-	-	-	2	-	2
Amounts written off	(4)	(1)	(5)	(8)	(8)	(16)
Depreciation at 31 December	**29**	**21**	**50**	**33**	**21**	**54**
Net book value at 31 December	**10**	**4**	**14**	**8**	**3**	**11**

AIB UK	Property 2015 £m	Equipment 2015 £m	Total 2015 £m	Property 2014 £m	Equipment 2014 £m	Total 2014 £m
Cost at 1 January	30	24	54	40	32	72
Additions	2	2	4	1	-	1
Amounts written off	(4)	(1)	(5)	(9)	(8)	(17)
Cost at 31 December	**28**	**25**	**53**	**32**	**24**	**56**
Accumulated depreciation at 1 January	23	22	45	31	29	60
Charge for year	-	1	1	1	1	2
Impairment charge	-	-	-	2	-	2
Amounts written off	(4)	(1)	(5)	(9)	(8)	(17)
Depreciation at 31 December	**19**	**22**	**41**	**25**	**22**	**47**
Net book value at 31 December	**9**	**3**	**12**	**7**	**2**	**9**

The net book value of property occupied by AIB UK for its own activities at 31 December 2015 was £10m (2014: £6m).

	AIB UK Group 2015 £m	AIB UK Group 2014 £m	AIB UK 2015 £m	AIB UK 2014 £m
Freehold	5	6	4	4
Long leasehold	2	1	2	2
Short leasehold	3	1	3	1
Net book value of property	**10**	**8**	**9**	**7**

27. Intangible assets

AIB UK Group & AIB UK	2015 £m	2014 £m
Cost at 1 January	5	4
Additions – internally generated [1]	-	1
Disposals	-	-
Cost at 31 December	**5**	**5**
Amortisation at 1 January	2	2
Amortisation for year	-	-
Disposals	-	-
Amortisation at 31 December	**2**	**2**
Net book value of property	**3**	**3**

[1] The intangible asset represents capitalised software development cost.

28. Deferred taxation

AIB UK Group & AIB UK	2015 £m	2014 £m
Deferred tax assets		
Unutilised tax losses	164	355
Provision for impairment of loans and receivables	-	1
Amortised income	-	1
Cashflow Hedges	2	-
Other	4	1
Total gross deferred tax assets	**170**	**358**
Deferred tax liabilities		
Retirement benefits	(110)	(78)
Available for sale securities	(7)	-
Other	-	(1)
Total gross deferred tax liability	**(117)**	**(79)**
Net deferred tax asset	**53**	**279**

Represented on the Statement of Financial Position as follows:

AIB UK Group & AIB UK	2015 £m	2014 £m
Deferred taxation asset	87	279
Deferred taxation liability	(34)	-

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

AIB UK Group & AIB UK	2015 £m	2014 £m
Deferred taxation at 1 January	279	389
Deferred tax through other comprehensive income (note 35)	(36)	(30)
Income statement (note 14)	(190)	(80)
Deferred taxation at 31 December	**53**	**279**

Deferred tax assets and liabilities are only offset where there is a legally enforceable right to offset and there is an intention to settle the balances net. As the deferred tax liability in relation to the UK corporation tax surcharge cannot be offset against other UK deferred tax assets, it has been grossed up and shown separately on the balance sheet.

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 26% (2014: 20%), except for deferred tax on unutilised tax losses which is recognised at 18%. The tax rate comprises the future corporation tax rate of 18%, as set out below, plus the UK corporation tax surcharge of 8%.

The Finance Act 2013 reduced the rate of UK corporation tax to 20% from 1 April 2015, and the Finance (No.2) Act 2015 reduced the rate further, to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. Accordingly, as the 18% rate was enacted at the balance sheet date, this rate has been applied in the measurement of AIB UK Group's deferred tax balances as at 31 December 2015.

Deferred tax assets relating to unutilised tax losses and deductible temporary differences are recognised if it is probable that these assets can be recovered through offset against future taxable profits or other temporary differences. IAS 12 does not permit a company to apply present value discounting to its deferred tax assets or liabilities regardless of the estimated timescales over which those assets or liabilities are projected to be realised. If AIB UK Group's deferred tax asset in respect of unused tax losses were discounted, it would be significantly lower. The deferred tax asset due after more than one year is £158m (2014: £341m).

Included in the deferred tax asset is £164m (2014: £355m) relating to unutilised tax losses. The reduction of £191m during the year reflects the UK legislative change introduced during the year which restricts to 50% the amount of a bank's annual profits that can be used to shelter unutilised tax losses as detailed below, the reduction of the corporation tax rate to 18%, and utilisation against taxable profits.

The recoverability of the deferred tax asset in respect of unutilised tax losses is dependent on the future profitability of AIB UK Group. In assessing future profitability, the Board has considered a range of positive and negative evidence for this purpose, including:

- AIB UK Group has achieved profits in 2013, 2014 and 2015, reversing the trend of losses of previous years;
- AIB UK Group has a sustained history of long-term positive earnings prior to pre-tax losses incurred in 2010-2012 and the losses incurred in those years was significantly impacted by the transfer of loans to UKLM and to NAMA, which were one-off events that are not expected to recur;
- the Business Plan for AIB UK Group for the period 2016 to 2018, has been approved by the Board;
- the benefits of AIB UK Group's restructuring of the business and its associated cost base; AIB GB has completed its IDT restructure, and Phase 3 of the FTB restructure is underway;
- the de-leveraging and de-risking of the loan portfolios in 2015;
- profit levels beyond the scope of the three year Business Plan have been held constant in future years, which is a conservative assessment given underlying UK GDP growth of 2% per annum over the long term;
- continued substantial financial support from the Parent, and a commitment from the parent for substantial technology and process investment in AIB UK Group;
- financial support provided by the Irish government to the Parent, and the exit of the Irish State from the EU/IMF programme;
- absence of any expiry dates for Irish and UK tax losses; and
- the expected future economic outlook, where external forecasts for the UK economy which indicate continued economic recovery through the period of the financial plan.

Against this, there are a number of uncertainties inherent in any long-term financial assumptions and projections and other negative evidence, including:

- losses incurred in years 2010 to 2012;
- continued funding and margin pressures, in a challenging market environment;
- divergent treatment of deferred taxation from a statutory accounting and regulatory perspective;
- the absolute level of the deferred tax asset compared to the level of equity and the quantum of profits required to utilise the asset;
- reduced size of AIB UK Group's operations following re-structuring;
- downside risk to the recovery of the UK economy and continued low interest rate environment; and
- weakness in the Eurozone and in the Irish and global economies.

Having taken into account all these factors, AIB UK Group believes that it is more likely than not that it will achieve profits producing a sustainable market-range return on equity in the long-term.

The Directors have determined that recognition of the UK deferred tax asset is restricted to the amount projected to be realised within fifteen years. This is the period within which AIB UK Group believes that it can assess the likelihood of UK profits arising as being more likely than not. As a result of these considerations, £380m of deferred tax assets have not been recognised in the 2015 accounts (2014: £262m). The increase of £118m of unrecognised deferred tax assets is driven by UK legislative changes restricting the utilisation of carried forward losses, and the reduction in UK corporation tax rates.

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.

In December 2014 the UK Chancellor announced in his Autumn Statement that, from 1 April 2015, only fifty per cent of a bank's annual trading profits can be sheltered by unused tax losses arising before that date. This proposal was enacted in the Finance Act 2015 in March 2015 and, as a result, 50% of AIB UK Group's deferred tax asset, amounting to £162m, was written off in the current year.

The Corporation Tax (Northern Ireland) Act was enacted on 26 March 2015 to grant the power for the Northern Ireland Assembly to set the rate of corporation tax on trading profits of companies based in Northern Ireland. The Northern Ireland Executive's commitment is to introduce a corporation tax rate of 12.5% from April 2018, however, banking activities are excluded (apart from specific back office activities). Therefore, the normal UK corporation tax rate will continue to apply to profits from most banking activities.

29. Deposits by banks

	AIB UK Group		AIB UK	
	2015	2014	2015	2014
	£m	£m	£m	£m
Other borrowings from banks	**2,281**	**2,854**	**2,272**	**2,846**
Amounts include:				
Due to parent and fellow subsidiaries	2,262	2,849	2,253	2,841

At 31 December 2015 and 31 December 2014, there were no securities sold under agreements to repurchase.

30. Customer accounts

	AIB UK Group		AIB UK	
	2015	2014	2015	2014
	£m	£m	£m	£m
Current accounts	4,644	4,262	4,644	4,282
Demand deposits	1,567	1,563	1,567	1,690
Time deposits	2,116	2,470	2,223	2,470
Customer accounts	**8,327**	**8,295**	**8,434**	**8,442**
Amounts include:				
Due to parent and fellow subsidiaries	73	52	180	199

31. Debt securities in issue

	AIB UK Group		AIB UK	
	2015	2014	2015	2014
	£m	£m	£m	£m
Class A notes	99	139	-	-
Dated debentures: 7.9% fixed rate	-	45	-	45
Debt securities in issue	**99**	**184**	**-**	**45**

The class A notes were issued to external investors on 16 May 2012 as part of the securitisation of residential mortgages transaction with Tenterden Funding p.l.c. The notes have a final maturity date of 21 March 2044 with a call option to early mature on 21 June 2017. The coupon rate is three month London Interbank Offered Rate (LIBOR) plus 1.5%.

The dated debentures were issued on 30 September 1996 to the Parent Group as consideration for the purchase of its UK banking operations. They were repaid on 31 December 2015.

32. Other liabilities

	AIB UK Group		AIB UK	
	2015	2014	2015	2014
	£m	£m	£m	£m
Notes in circulation	312	329	312	329
Items in transit	49	54	49	54
Acceptances	3	3	3	3
VAT payable	1	-	-	-
Other creditors	18	18	17	17
Other liabilities	**383**	**404**	**381**	**403**

33. Provisions for liabilities and commitments

AIB UK Group	Termination benefits* £m	Customer redress* £m	Empty properties* £m	Litigation* £m	Other* £m	Total £m
	(a)	(b)	(c)	(d)	(e)	
At 1 January 2015	1	39	24	4	8	**76**
Amounts charged to income statement	-	3	-	-	-	**3**
Amounts released to income statement	-	(2)	(3)	-	(4)	**(9)**
Provisions utilised	(1)	(13)	(13)	-	(1)	**(28)**
At 31 December 2015	**-**	**27**	**8**	**4**	**3**	**42**
At 1 January 2014	1	94	5	4	8	**112**
Amounts charged to income statement	1	17	23	1	1	**43**
Amounts released to income statement	-	(2)	(3)	-	-	**(5)**
Provisions utilised	(1)	(70)	(1)	(1)	(1)	**(74)**
At 31 December 2014	**1**	**39**	**24**	**4**	**8**	**76**

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AIB UK	Termination benefits* £m	Customer redress* £m	Empty properties* £m	Litigation* £m	Other* £m	Total £m
	(a)	(b)	(c)	(d)	(e)	
At 1 January 2015	1	26	24	4	8	63
Amounts charged to income statement	-	3	-	-	-	3
Amounts released to income statement	-	(2)	(3)	-	(4)	(9)
Provisions utilised	(1)	(9)	(13)	-	(1)	(24)
At 31 December 2015	-	18	8	4	3	33
At 1 January 2014	1	84	5	4	8	102
Amounts charged to income statement	1	14	23	1	-	39
Amounts released to income statement	-	(2)	(3)	-	-	(5)
Provisions utilised	(1)	(70)	(1)	(1)	-	(73)
At 31 December 2014	1	26	24	4	8	63

*Charge/release is included within provisions for liabilities and in the Income Statement for 2014 and 2015.

Notes

(a) 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 now treated as accruals and have been included as such for 2015.

(b) Provision is recognised for any obligation arising to refund customers for fees or charges, incurred in previous periods, where it is probable a refund will be made and the amount can be reliably estimated. Included within customer redress is a provision at 31 December 2015 of £11m (2014: £21m) in relation to potential interest rate hedging mis-selling, a provision of £4m (2014: £4m) for the cost of PPI redress, and a provision of £12m (2014: £15m) in respect of mis-selling investments products and other customer redress issues.

Interest Rate Hedging Provision (IRHP)

A provision of £40m was originally raised at 31 December 2012 for the amount of potential redress to customers arising from the IRHP review instigated by the FCA. During 2013 the FCA gave greater guidance on the approach they wish Banks to undertake in considering whether redress to the customer was required, and on the basis of this the provision was increased to £80m as at 31 December 2013. In January 2015 the FCA issued further guidance in relation to the industry-wide review. As a result of this a further £5m was raised in 2014 to cover further potential redress. During 2014 and 2015 a total of £71m has been paid out in respect of claims agreed and settled.

In total, there is £11m of the redress provision remaining at year end. £1m is expected to be paid out on cases currently being finalised and £10m is to cover potential consequential loss claims and legal claims.

PPI provision

AIB UK Group holds a provision for PPI redress claims and associated costs. During 2014 and 2015 substantial effort was made to close out proactive customer complaints and complete a review of business carried out in the past. The £5m provision includes £3m to cover the anticipated settlements and cases currently with the Financial Ombudsman. An additional £2m was raised to cover expected claims arising out of the introduction of time barring and a recent Court ruling meaning that some PPI claims previously closed could now be eligible for redress.

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 2015. £3m has been paid out during the year in respect of mis-selling claims and legal costs. A review has been carried to assess the adequacy of the provision to cover claims already made and any further potential claims.

(c) In 2014, a project was instigated in AIB (GB) to assess the branch and head office space required following the restructure of the business and as a result AIB UK Group occupies a number of premises that are surplus to requirements. Under IAS 37 'Provisions and Contingencies' a provision is required for the costs associated with these premises. The provision represents the net obligations of AIB UK Group for the rent and other occupancy costs of the premises until the next break clause in the lease, net of any contribution to the cost of the leases from sub-tenants. A number of these properties were vacated and leases exited during 2015, with further property exits planned for 2016.

(d) AIB UK Group has made provision for the cost of a number of legal claims that were outstanding at 31 December 2015. Management believes that this amount 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.

(e) Other provisions represent various other provisions, which, in the opinion of the directors, arise as a result of past events, and are likely to materialise in the immediate future. Included within other provisions at 31 December 2015 is an amount of £1m (2014: £5m) in respect of potential settlement in respect of staff benefits-in-kind, and £2m (2014: £3m) in respect of the FSCS levy for scheme year 2016/17.

34. Share capital

	2015	2014
AIB UK Group & AIB UK	£m	£m
Authorised, issued and fully paid ordinary shares of £1 each	**2,384**	2,384

No ordinary shares were issued in 2015 or 2014.

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35. Analysis of movements in reserves in other comprehensive income

AIB UK Group	Gross £m	Tax £m	2015 Net £m	Gross £m	Tax £m	2014 Net £m
Cash flow hedge reserve						
Amount removed from equity and transferred to income statement	1	(1)	-	-	-	-
Change in fair value recognised in equity	(7)	2	(5)	-	-	-
Total	**(6)**	**1**	**(5)**	**-**	**-**	**-**
Available for sale financial assets						
Amount removed from equity and transferred to income statement	(1)	-	(1)	-	-	-
Change in fair value recognised in equity	22	(5)	17	(3)	-	(3)
Total	**21**	**(5)**	**16**	**(3)**	**-**	**(3)**
Retained earnings						
Actuarial (loss)/ gain in retirement benefit schemes (note 12)	28	(32)	(4)	152	(30)	122
Total	**28**	**(32)**	**(4)**	**152**	**(30)**	**122**
Other comprehensive income	**43**	**(36)**	**7**	**149**	**(30)**	**119**

AIB UK	Gross £m	Tax £m	2015 Net £m	Gross £m	Tax £m	2014 Net £m
Cash flow hedge reserve						
Amount removed from equity and transferred to income statement	1	(1)	-	-	-	-
Change in fair value recognised in equity	(7)	2	(5)	-	-	-
Total	**(6)**	**1**	**(5)**	**-**	**-**	-
Available for sale financial assets						
Amount removed from equity and transferred to income statement	(1)	-	(1)	-	-	-
Change in fair value recognised in equity	22	(5)	17	(2)	-	(2)
Total	**21**	**(5)**	**16**	**(2)**	**-**	(2)
Retained earnings						
Actuarial gain in retirement benefit schemes (note 12)	28	(32)	(4)	152	(30)	122
Total	**28**	**(32)**	**(4)**	**152**	**(30)**	122
Other comprehensive income	**43**	**(36)**	**7**	**150**	**(30)**	**120**

36. Share-based compensation

The share-based compensation schemes which AIB UK Group operates in respect of ordinary shares in AIB plc are:

(i) AIB Group Share Option Scheme;
(ii) AIB Group Performance Share Plan 2005;
(iii) Employee Share Ownership Plan (UK); and
(iv) AIB Sharesave Scheme (UK).

The share price of AIB plc ordinary shares is quoted in Euro, and at 31 December 2015 was €0.07 (£0.05).

Income statement

Share based payment transactions generated an expense of nil in the year ended 31 December 2015 (2014: nil) which is included in administration expenses in the income statement.

(i) AIB Group Share Option Scheme

This scheme was replaced by the AIB Group Performance Share Plan 2005 (see below). Employees of AIB UK participated in the scheme at the discretion of the directors of AIB plc. Options were granted at the market price, being the middle market quotation of AIB plc's shares on the Irish Stock Exchange on the day preceding the date on which the option is granted.

Options were last granted under this scheme in 2005. This scheme terminated in April 2015 with all outstanding options either being forfeited or lapsed.

A summary of the share option activity over the years to 31 December 2015 and 31 December 2014 is shown below:

	2015		2014	
	Number of options	WAEP* (€)	Number of options	WAEP* (€)
Outstanding at 1 January	24,600	16.20	102,340	13.52
Lapsed/Forfeited	(24,600)	16.20	(77,740)	12.67
Outstanding at 31 December	-	-	**24,600**	**16.20**
Exercisable at 31 December	-	-	**24,600**	**16.20**

*Weighted average exercise price ('WAEP')

There were no options exercised during 2015 or 2014.

The following table presents the number of options outstanding at 31 December 2015 and 2014:

	2015			2014		
	Exercise price (€)	Weighted average remaining contractual life in years	Number of options	Exercise price (€)	Weighted average remaining contractual life in years	Number of options
Outstanding at 31 December	-	-	-	16.20	-	24,600

(ii) AIB Group Performance Share Plan 2005

There were no awards of performance shares in the years 2015 or 2014. The plan terminated in April 2015.

(iii) Employee Share Ownership Plan (UK)

AIB UK Group operated a Share Ownership Plan which provided for the acquisition by eligible employees of shares in the Parent Group. The plan covered partnership shares, free shares and dividend shares.

No free shares have been awarded since 2008. No partnership shares have been purchased by employees since 2012.

(iv) AIB Sharesave Scheme (UK)

AIB UK Group operated a Share save scheme that was open to all employees who met certain criteria. Options were last granted under this scheme in 2008, and there were no activities under the scheme in this year.

No options were exercised during 2015 or 2014 and no options were outstanding at 31 December 2015 or 31 December 2014.

37. 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.

	2015	2014
	Contract amount	Contract amount
AIB UK Group & AIB UK	£m	£m
Contingent liabilities		
Guarantees and irrevocable letters of credit	583	595
Other contingent liabilities	63	67
	646	**662**
Commitments		
Documentary credits and short-term trade related transactions	2	2
Undrawn credit facilities		
- One year and over	560	463
- Less than one year	739	662
	1,301	**1,127**
Contingent liabilities and commitments	**1,947**	**1,789**

38. Fair value of financial instruments

The term 'financial instruments' includes both financial assets and financial liabilities. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the AIB UK Group has access at that date. AIB UK Group's accounting policy for the determination of fair value of financial instruments is set out in accounting policy number 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 2015.

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 2015 are as follows:

Financial instruments measured at fair value in the financial statements

Trading portfolio financial instruments
The fair value of trading debt securities, together with quoted equity shares is based on quoted prices or bid/offer quotations sourced from external securities dealers, where these are available on an active market. Where securities and equities are traded on an exchange, the fair value is based on prices from the exchange.

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

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.

Included in the financial investments available for sale (equity securities) as at 31 December 2015 is £21m relating to shares in Visa Europe (2014: nil). As a result of the proposed sale of 100% of the shares in Visa Europe to Visa Inc, and based on information received from Visa Europe, AIB UK Group will receive consideration of £21m for the sale of its share of the equity of Visa Europe. This results in a fair value gain of £21m as at 31 December 2015, (2014: NIL). The amount of the consideration is not yet final and can be amended as a consequence of transaction costs, contractual clauses and successful members appeals. The transaction is expected to be finalised by June 2016, at which stage the fair value gain will be taken to 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 2015 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 central banks and banks and customer accounts
The fair value of current accounts and deposit liabilities which are repayable on demand, or which re-price frequently, approximates to their book value. The fair value of all other deposits and other borrowings is estimated using discounted cash flows applying either market rates, where applicable, or interest rates currently offered by 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 37. 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 tables on the following pages set out the carrying amount and fair value of financial instruments across the three levels of the fair value hierarchy at 31 December 2015 and 31 December 2014:

										2015
	Carrying amount in statement of financial position						Fair value hierarchy			
	At FV through P&L	At FV through equity		At amortised cost						
	Held for trading	Cash flow hedge derivatives	Available for sale securities	Loans and receivables	Other	Total	Level 1	Level 2	Level 3	Total
AIB UK Group	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets measured at fair value										
Derivative financial instruments	88	4	-	-	-	**92**	-	8	84	**92**
Financial investments available for sale										
- Equity shares	-	-	54	-	-	**54**	-	-	54	**54**
Financial assets not measured at fair value										
Cash and balances at central banks	-	-	-	2,647	-	**2,647**	26	2,621	-	**2,647**
Items in the course of collection	-	-	-	63	-	**63**	-	-	63	**63**
Loans and receivables to banks	-	-	-	2,830	-	**2,830**	-	-	2,830	**2,830**
Loans and receivables to customers	-	-	-	6,472	-	**6,472**	-	-	6,205	**6,205**
Other assets	-	-	-	-	225	**225**	-	-	225	**225**
Retirement benefits	-	-	-	-	275	**275**	-	-	275	**275**
Total assets	**88**	**4**	**54**	**12,012**	**500**	**12,658**	**26**	**2,629**	**9,736**	**12,391**
Financial liabilities measured at fair value										
Derivative financial instruments	102	8	-	-	-	**110**	-	110	-	**110**
Financial liabilities not measured at fair value										
Deposits by banks	-	-	-	-	2,281	**2,281**	-	-	2,306	**2,306**
Customer accounts	-	-	-	-	8,327	**8,327**	-	-	8,333	**8,333**
Debt securities in issue	-	-	-	-	99	**99**	-	100	-	**100**
Other liabilities	-	-	-	-	383	**383**	-	-	383	**383**
Total liabilities	**102**	**8**	**-**	**-**	**11,090**	**11,200**	**-**	**210**	**11,022**	**11,232**

	2014								
	Carrying amount in statement of financial position					Fair value hierarchy			
	At FV through P&L	At FV through equity	At amortised cost						
	Held for trading	Available for sale securities	Loans and receivables	Other	Total	Level 1	Level 2	Level 3	Total
AIB UK Group	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets measured at fair value									
Derivative financial instruments	122	-	-	-	**122**	-	2	120	**122**
Financial investments available for sale									
- Equity shares	-	31	-	-	**31**	-	-	31	**31**
Financial assets not measured at fair value									
Cash and balances at central banks	-	-	2,846	31	**2,877**	31	2,846	-	**2,877**
Items in the course of collection	-	-	-	62	**62**	-	-	62	**62**
Loans and receivables to banks	-	-	3,460	-	**3,460**	-	423	3,052	**3,475**
Loans and receivables to customers	-	-	6,375	-	**6,375**	-	-	5,960	**5,960**
Other assets	-	-	-	44	**44**	-	-	44	**44**
Retirement benefits	-	-	-	271	**271**	-	-	271	**271**
Total assets	**122**	**31**	**12,681**	**408**	**13,242**	**31**	**3,271**	**9,540**	**12,842**
Financial liabilities measured at fair value									
Derivative financial instruments	141	-	-	-	**141**	-	141	-	**141**
Financial liabilities not measured at fair value									
Deposits by banks	-	-	-	2,854	**2,854**	-	-	2,880	**2,880**
Customer accounts	-	-	-	8,295	**8,295**	-	-	8,302	**8,302**
Debt securities in issue	-	-	-	184	**184**	-	201	-	**201**
Other liabilities	-	-	-	404	**404**	-	-	404	**404**
Total liabilities	**141**	**-**	**-**	**11,737**	**11,878**	**-**	**342**	**11,586**	**11,928**

Reconciliation of balances in Level 3 of fair value hierarchy:

					2015
	Financial assets			Financial liabilities	
AIB UK Group	Derivatives £m	Equity securities £m	Total £m	Derivatives £m	Total £m
At beginning of year	120	31	151	-	-
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Total gains or losses in:	-	-	-	-	-
- Profit or loss	(36)	-	(36)	-	-
- Other comprehensive income	-	23	23	-	-
Purchases	-	-	-	-	-
Sales	-	-	-	-	-
At 31 December 2015	**84**	**54**	**138**	-	-

					2014
	Financial assets			Financial liabilities	
AIB UK Group	Derivatives £m	Equity securities £m	Total £m	Derivatives £m	Total £m
At beginning of year	-	33	33	-	-
Transfers into Level 3	120	-	120	-	-
Transfers out of Level 3	-	-	-	-	-
Total gains or losses in:	-	-	-	-	-
- Profit or loss	-	-	-	-	-
- Other comprehensive income	-	(2)	(2)	-	-
Purchases	-	-	-	-	-
Sales	-	-	-	-	-
At 31 December 2014	**120**	**31**	**151**	-	-

39. Interest rate sensitivity

Structural interest rate risk arises in AIB UK Group's banking business where assets and liabilities have different repricing dates. Part of AIB UK Group's return on financial instruments is obtained from controlled mismatching of the dates on which the instruments mature or, if earlier, the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates. The 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 dates. 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.

	0-1 Mths £m	1-3 Mths £m	3-12 Mths £m	1-2 Yrs £m	2-3 Yrs £m	3-4 Yrs £m	4-5 Yrs £m	5+ Yrs £m	Non-interest bearing £m	Total £m
										2015
Assets										
Loans and receivables to banks	2,247	307	137	4	-	-	-	-	135	2,830
Loans and receivables to customers	4,693	1,339	149	39	53	47	68	305	(221)	6,472
Financial investments available for sale	-	-	-	-	-	-	-	-	54	54
Other assets	2,620	-	-	-	-	-	-	-	941	3,561
Total assets	**9,560**	**1,646**	**286**	**43**	**53**	**47**	**68**	**305**	**909**	**12,917**
Liabilities										
Deposits by banks	1,306	644	48	54	20	14	19	127	49	2,281
Customer accounts	4,791	398	724	200	10	-	-	-	2,204	8,327
Debt securities in issue	-	99	-	-	-	-	-	-	-	99
Subordinated liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	-	596	596
Shareholders' equity	-	-	-	-	-	-	-	-	1,614	1,614
Total liabilities and shareholders' equity	**6,097**	**1,141**	**772**	**254**	**30**	**14**	**19**	**127**	**4,463**	**12,917**
Derivative financial instruments affecting interest rate sensitivity	1,126	416	(336)	(198)	17	10	26	(1,061)	-	-
Interest sensitivity gap	**2,337**	**89**	**(150)**	**(13)**	**6**	**23**	**23**	**1,239**	**(3,554)**	**-**
Cumulative interest sensitivity gap	2,337	2,426	2,276	2,263	2,269	2,292	2,315	3,554	-	-

	0-1 Mths £m	1-3 Mths £m	3-12 Mths £m	1-2 Yrs £m	2-3 Yrs £m	3-4 Yrs £m	4-5 Yrs £m	5+ Yrs £m	Non-interest bearing £m	Total £m
										2014
Assets										
Loans and receivables to banks	1,427	479	927	236	1	-	-	45	345	3,460
Loans and receivables to customers	4,479	1,544	94	42	66	52	49	261	(212)	6,375
Financial investments available for sale	-	-	-	-	-	-	-	-	31	31
Other assets	2,835	-	-	-	-	-	-	-	962	3,797
Total assets	**8,741**	**2,023**	**1,021**	**278**	**67**	**52**	**49**	**306**	**1,126**	**13,663**
Liabilities										
Deposits by banks	1,256	1,159	97	62	56	20	13	154	37	2,854
Customer accounts	4,699	415	939	236	-	-	-	-	2,006	8,295
Debt securities in issue	-	139	-	-	-	-	-	45	-	184
Other liabilities	-	-	-	-	-	-	-	-	636	636
Shareholders' equity	-	-	-	-	-	-	-	-	1,694	1,694
Total liabilities and shareholders' equity	**5,955**	**1,713**	**1,036**	**298**	**56**	**20**	**13**	**199**	**4,373**	**13,663**
Derivative financial instruments affecting interest rate sensitivity	-	-	-	-	-	-	-	-	-	-
Interest sensitivity gap	**2,786**	**310**	**(15)**	**(20)**	**11**	**32**	**36**	**107**	**(3,247)**	**-**
Cumulative interest sensitivity gap	2,786	3,096	3,081	3,061	3,072	3,104	3,140	3,247	-	-

40. Cash and cash equivalents

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

	AIB UK Group		AIB UK	
	2015	2014	2015	2014
	£m	£m	£m	£m
Cash and balances with central banks	2,647	2,877	2,647	2,877
Loans and receivables to banks [1]	1,007	853	1,007	853
Deposits by banks	(60)	(49)	(60)	(49)
Cash and cash equivalents	**3,594**	**3,681**	**3,594**	**3,681**

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

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41. Financial assets and liabilities by contractual residual maturity

	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
						2015
	£m	£m	£m	£m	£m	£m
Financial assets						
Loans and receivables to banks	1,006	1,573	147	104	-	2,830
Loans and receivables to customers (1)	839	86	310	2,702	2,815	6,752
	1,845	1,659	457	2,806	2,815	9,582
Financial liabilities						
Deposits by banks	60	42	48	1,993	138	2,281
Customer accounts	6,276	1,108	734	209	-	8,327
Debt securities in issue	-	-	-	99	-	99
	6,336	1,150	782	2,301	138	10,707

	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
						2014
	£m	£m	£m	£m	£m	£m
Financial assets						
Loans and receivables to banks	853	1,250	927	385	45	3,460
Loans and receivables to customers (1)	1,232	197	397	2,082	2,897	6,805
	2,085	1,447	1,324	2,467	2,942	10,265
Financial liabilities						
Deposits by banks	49	44	54	2,525	182	2,854
Customer accounts	5,797	1,311	939	248	-	8,295
Debt securities in issue	-	-	-	139	45	184
	5,846	1,355	993	2,912	227	11,333

(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 18), which are held for the purpose of covering unexpected cash outflows.

2015	Repayable on demand £m	3 months or less, but not repayable on demand £m	1 year or less, but over 3 months £m	5 years or less, but over 1 year £m	Over 5 years £m	Total £m
Deposits by banks	60	47	61	2,040	169	2,377
Customer accounts	6,292	1,111	728	210	-	8,341
Derivative financial instruments	-	1	1	1	7	10
Debt securities in issue	-	1	2	100	-	103
Other liabilities	382	-	-	-	-	382
	6,734	1,160	792	2,351	176	11,213

2014	Repayable on demand £m	3 months or less, but not repayable on demand £m	1 year or less, but over 3 months £m	5 years or less, but over 1 year £m	Over 5 years £m	Total £m
Deposits by banks	49	49	70	2,581	218	2,967
Customer accounts	5,813	1,316	945	251	-	8,325
Derivative financial instruments	-	2	3	1	-	6
Debt securities in issue	-	1	6	157	70	234
Other liabilities	404	-	-	-	-	404
	6,266	1,368	1,024	2,990	288	11,936

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

	2015 Repayable on demand £m	2014 Repayable on demand £m
Contingent liabilities	646	662
Commitments	1,301	1,127
Contingent liabilities and commitments	1,947	1,789

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

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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:

	2015			2014		
	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	5	11	0.5	6	13	1.5

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	
	2015 £m	2014 £m	2015 £m	2014 £m
Salary and other short-term benefits	2.4	2.6	0.4	0.5
Post-employment benefits	0.2	0.3	-	-
Total	**2.6**	**2.9**	**0.4**	**0.5**

In 2015 there were 19 key management personnel for all or part of the year (2014: 19). The table above represents the compensation paid in relation to the period for which they were key management personnel.

No payments to former Directors were made during the year (2014: £2.1m).

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 (2014: none).

Retirement benefits accrued to three key management personnel of which the accrued pension amount for the highest paid member at the end of the year was nil (2014: £0.1m). The figure represents the accumulated total amount of accrued benefits payable at normal retirement date, as at 31 December 2015.

(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 (note 36). 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 25. 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:

	2015		2014	
	Immediate parent £m	Subsidiaries £m	Immediate parent £m	Subsidiaries £m
Statement of financial position				
Loans and receivables	29	(2)	28	(2)
Deposits	17	107	12	147
Income statement				
Interest expense and similar charges	-	4	-	6

(e) Ultimate parent and fellow subsidiaries

Transactions that AIB UK Group enter into with the ultimate parent company and fellow subsidiaries are made in the ordinary course of business at normal commercial terms. The table below provides the balances that AIB UK Group has with its ultimate parent and fellow subsidiaries and the transactions included in the income statement:

	2015		2014	
	Ultimate parent £m	Fellow subsidiaries £m	Ultimate parent £m	Fellow subsidiaries £m
Statement of financial position				
Loans and receivables				
- Due from parent and fellow subsidiaries	2,251	63	2,911	126
- Reverse repurchase agreements	-	-	62	-
Deposits	2,262	55	2,850	38
Income statement				
Interest and similar income	41	-	35	-
Other operating (expense)/income	-	-	-	-
Interest expense and similar charges	(36)	-	(33)	-
Trading and other income/(expense)	(6)	-	(75)	-
Administrative expenses/(income)	(24)	(12)	(23)	14

(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 2015 AIB UK Group recognised £8m (2014: £11m) fair value amortisation income on these loans. See note 16 for further details on the transaction.

(g) Transactions with Key Management Personnel

Connected persons

The aggregate of loans to connected persons of Directors in office are as follows (aggregate of 3 persons; 2014: nil persons):

	Balance at 31 December 2015 £m	Balance at 31 December 2014 £m
Loans	50.4	-
Total	**50.4**	-

The total interest received on these loans in 2015 was £1.2m (2014: nil).
The loans are made on normal commercial terms, and there are no impairment provisions on any of these loans (2014: nil).

44. Capital, operating and finance lease commitments

(a) Operating lease rentals

	2015	2014
AIB UK Group & AIB UK	£m	£m
Future minimum lease payments under non-cancellable operating leases		
- Within one year	5	4
- Between one and five years	17	19
- Over five years	22	31
Operating lease rentals	**44**	**54**

There are no contingent rents payable.

(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 29 January 2016 proceeds of £184m were received by AIB UK Group relating to the sale of a portfolio of loans to a third party (note 24). The loans had been derecognised from the balance sheet of AIB UK Group in December 2015.

There have been no other significant events affecting AIB UK Group and 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. The ultimate parent company is AIB plc, a company registered in the Republic of Ireland. The Parent Group is the largest group of which AIB UK is a member, for which consolidated accounts are prepared. The financial statements of the ultimate parent company are available from Allied Irish Banks, p.l.c., 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.
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
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
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 Group where the counterparty to the financial contract is typically a personal customer, a corporation (other than a financial institution) or the government. This caption includes various types of deposits and credit current accounts, all of which are unsecured.
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 purposed. 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.
ECB	European Central Bank
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 in order 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 the Group include interest only, a reduction in the payment amount, a temporary deferral of payment (a moratorium), extending the term of the mortgage and capitalising arrears amounts and related interest.
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
FVA	Funding Valuation Adjustment
GDP	Gross Domestic Product
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 form 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
IRHP	Interest Rate Hedging Provision
LCR	Liquidity Coverage Requirement
LDI	Liability Driven Investments
LGD	Loss Given 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.
MREL	Minimum Requirement for own funds and Eligible Liabilities
NAMA	Republic of Ireland's National Asset Management Agency
NIRIL	Net Interest Rate Insensitive Liabilities
NSFR	Net Stable Funding Ratio
OMB	Owner Managed Business
OTC	Over The Counter
PHI	Permanent Health Insurance

Pillar I	Sets out the rules for calculating minimum regulatory capital. It is a variable capital requirement based on the sum of operational, market and credit risk requirements. AIB UK Group must maintain, at all times, capital resources equal to or in excess of the amount specified.
Pillar II	This Supervisory Review Process requires supervisors to ensure each bank has a sound internal process in place to assess the adequacy of its capital based on a thorough evaluation of its material risks.
Pillar III	Pillar III sets out the required detailed disclosures of each of a bank's key risks
PPI	Payment Protection Insurance
PRA	Prudential Regulation Authority
Probability of Default (PD)	The PD is the likelihood that a borrower will default on an obligation to repay.
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	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.
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.
SIC	Standard Interpretations Committee
SLP	AIB PFP Scottish Limited Partnership
SLS	Structured Lending Solutions
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
SPE	Special purpose entity (SPE) is a legal entity which can be a limited company or a limited partnership created to fulfil narrow or specific objectives. A company will transfer assets to the SPE for management or use by the SPE to finance a large project thereby achieving a narrow set of goals without putting the entire firm at risk.
SRB	Single Resolution Board
SREP	Supervisory Review and Evaluation Process
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
Tier 1 capital	A measure of a bank's financial strength defined by the Basel Accord. It captures core Tier 1 capital plus other Tier 1 securities in issue, but is subject to deductions in relation to the excess of expected loss on the IRBA portfolios over the IFRS provision on the IRBA portfolios, securitisation positions and material holdings in financial companies.
Tier 2 capital	Broadly includes qualifying subordinated debt and other Tier 2 securities in issue, eligible collective impairment provisions, unrealised available for sale equity gains and revaluation reserves. It is subject to deductions relating to the excess of expected loss on the IRBA portfolios over the accounting impairment provision on the IRBA portfolios, securitisation positions and material holdings in financial companies.
Tracker mortgage	A tracker mortgage has a variable interest rate. The rate tracks the Bank of England (BOE) rate, at an agreed margin above the BOE rate and will increase or decrease within five days of an BOE rate movement.
UK Scheme	The AIB Group (UK) Pension Scheme
UKLM	AIB UK Loan Management Limited
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